



CITY OF LODI COUNCIL COMMUNICATION

AGENDATITLE: Adopt Resolutions of the City Council and the Lodi Public Financing Authority to Approve the Issuance of Water Revenue Bonds and Related Documents in an Amount Not to Exceed \$45 Million in Order to Construct the Surface Water Treatment Facility

MEETING DATE: October 6, 2010

PREPARED BY: Interim City Manager

RECOMMENDED ACTION: Adopt Resolutions of the City Council and the Lodi Public Financing Authority to approve the issuance of water revenue bonds and related documents in an amount not to exceed **\$45** million in order to construct the Surface Water Treatment Facility.

BACKGROUND INFORMATION: The 2010 Water Revenue Bonds are being **sold** to finance construction of the Surface Water Treatment Facility. The Treatment Facility is designed to pump water from the Mokelumne River, treat and deliver it to the City's existing water distribution system. The Treatment Facility is expected to provide 8 mgd of firm capacity (10 mgd peak capacity) of treated water that would meet or exceed State and federal drinking water standards. Major components of the Treatment Facility include a raw water pump station and pipeline; operations building; chemical building; treatment works (sedimentation basin, strainers, feed pumps, and membranes); control systems and related facilities and equipment.

Four major buildings will be constructed to house the treatment plant facilities. These include the operations building, chemical storage building, raw water pump station, and high service pump station. The initial plant construction is designed to treat 8 mgd. All facilities are designed to accommodate for a future expansion of the treatment plant to 20 mgd.

A 3-million-gallon storage tank and booster pumping facility will discharge the treated water on demand into the large diameter transmission mains constructed along with the treatment plant.

The estimates for the capital cost of the Treatment Facility will be approximately \$36.5 million, consisting of approximately \$27.5 million on site acquisition, construction costs, fees and testing costs, approximately **\$4.4** million in equipment, \$900,000 in engineering costs, and a contingency of approximately \$3.7 million.

SUMMARY OF DOCUMENTS: In order to complete this financing, the City and the Lodi Public Financing Authority ("PFA") are required to approve and execute several key legal documents. The key documents are summarized below.

APPROVED: _____


Konrad Bartlam, Interim City Manager

Resolutions: The Resolutions of the City and the PFA approve the issuance of the proposed bonds, the execution of the proposed legal documents and the distribution of the Official Statement to investors. While the documents are in near-to-final form, the Resolutions authorize certain officers of the City and the PFA to make amendments, as necessary. The Resolutions specify the maximum principal amount for the bonds, maximum borrowing cost and maximum underwriter's discount.

Official Statement: This document, approved and signed by the City and PFA, most importantly describes (i) the term of the bonds ("THE SERIES 2010 BONDS"), (ii) the security for the bonds ("SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS"), (iii) the improvements being financed with the bonds ("PLAN OF FINANCE and "THE TREATMENT FACILITY"), (iv) the City's Water System ("THE WATER SYSTEM"), which is the source of repayment for the bonds, (v) potential risks to prospective investors ("RISK FACTORS"), (vi) tax status of interest on the bonds ("TAX MATTERS") and (vii) economic and demographic characteristics of the City (Appendix C). The Preliminary Official Statement (often referred to as the "POS") is distributed by the underwriter to prospective investors prior to the bond sale so that investors can make informed purchase decisions. It is the equivalent of a prospectus in the private sector. A Final Official Statement is sent to purchasers after the terms of the sale are finalized.

The distribution of the POS is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the POS to include all facts that would be material to an investor in the bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the bonds.

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the City and the PFAs compliance with the federal securities laws, has issued guidance as to the duties of the City Council and the PFAs Board of Directors with respect to their approval of the POS. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC stated that, if a member of the City Council/Board of Directors has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the POS. In the Release, the SEC stated that the steps that a member of the City Council/Board of Directors could take include becoming familiar with the POS and questioning staff and consultants about the disclosure of such facts.

Continuing Disclosure Certificate: This certificate, attached as ~~as~~ appendix of the Official Statement, outlines the updated information related to the security that the City will agree to provide to the bond markets on an ongoing basis. Disclosure is required annually, and on an exceptional basis for any major "material" developments.

Bond Purchase Contract: This contract is executed among the City, the PFA and the underwriter (Stone & Youngberg) on the day of the bond sale. It specifies the actual principal amounts, interest rates and prices at which the bonds will be sold. Within the contract, the underwriter commits to purchase the bonds at closing and the PFA commits to sell the bonds at the agreed upon prices and amounts subject to certain closing conditions. Closing conditions generally relate to the execution and validity of all the required documents and the absence of material changes in the nature of the security, etc.

Installment Sale Agreement: This is the key legal document between the City and the PFA that lays out the terms for leveraging the Water System revenues to finance improvements to the Water System. Pursuant to this agreement, the City agrees to make installment payments to the PFA as the acquisition price of the financed improvements (the PFA assigns its right to receive these installment payments to the bond trustee pursuant to the Indenture of Trust described below).

The Installment Sale Agreement will specify

- the net revenues of the Water System specifically pledged to the installment payments (the City is not obligated to make the installment payments from any other City funds)
- the uses of the Water System's gross revenues: briefly, gross revenues are first used to pay operation and maintenance expenses and then to pay the installment payments and any future debt
- the promise of the City to charge sufficient rates to Water System customers to pay operation and maintenance expenses, the installment payments and any future debt with a sufficient coverage cushion (the "rate covenant")
- the terms under which additional Water System debt can be issued to finance additional capital improvements to the Water System.

Indenture of Trust: This is the legal document between the PFA and a corporate bank (as trustee for the bond owners) that lays out the terms of the bonds. It will specify

- the payment dates and maturities of the bonds
- the pledge of installment sale revenues to the bonds
- the default and remedy provisions (in the event that something goes wrong)
- redemption and defeasance provisions, in the event that the bonds are pre-paid.

In general, the PFA is a conduit for the installment payments paid by the City to the bond owners. The PFA has no obligation to pay debt service on the bonds from any source of funds other than the installment payments made by the City.

Market Conditions: Attached to this communication is an overview of current market conditions for both the Tax-Exempt Bond Market and Build America Bonds prepared by Stone & Youngberg. For purposes of presenting the City's proposed financing to the rating agencies, Stone & Youngberg has assumed current market rates for an "A-rated water credit plus a 25 basis point (0.25 percent) interest rate cushion. These assumptions produce an estimated borrowing cost of approximately 5.16 percent. The actual rates will depend upon the rating received on the City's bonds, the market conditions at the time of pricing and the potential use of bond insurance. The City's management team made rating presentations to Standard & Poor's as well as Moody's on September 20". At the time of packet deadline, the ratings have not been issued. We will provide the City Council this information via blue sheet update when we receive the information.

FISCAL IMPACT:

The estimated debt service for this bond issuance is \$2.65 million annually. The water utility has no other debt obligation or anticipated financing.

FUNDING AVAILABLE:

The debt service for this project has been anticipated within the water utility financial plan.



Konrad Bartlam
Interim City Manager

Attachments: Memorandum dated September 22, 2010 from Stone & Youngberg
Draft City Council Resolution
Draft Lodi Public Financing Authority Resolution

RESOLUTION NO. 2010-_____

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
DOCUMENTS AND OFFICIAL ACTIONS RELATING TO THE
INSTALLMENT SALE FINANCING OF WATER SYSTEM
IMPROVEMENTS AND THE ISSUANCE AND SALE OF WATER
REVENUE BONDS BY THE LODI PUBLIC FINANCING
AUTHORITY

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WHEREAS, the City of Lodi (the "City") owns and operates facilities and property for the supply, treatment and distribution of water within the service area of the City (the "Water System"); and

WHEREAS, in order to provide funds to finance the acquisition and construction of additional improvements to the Water System (the "Water Projects"), the Authority proposes to issue its 2010 Water Revenue Bonds (the "Bonds") under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"); and

WHEREAS, in order to provide revenues which are sufficient to pay debt service on the Bonds, the Authority proposes to sell the completed Water Projects to the City under an Installment Sale Agreement for a purchase price to be paid by the City in semiannual installments during the term of the Bonds; and

WHEREAS, the obligations of the City under the proposed Installment Sale Agreement will be secured by a pledge of and lien on the net revenues of the Water System; and

WHEREAS, the City Council wishes at this time to take action approving such financing transactions and all related documents and actions;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lodi as follows:

Section 1. Approval of Financing Plan; Authorization of Bonds. The City Council hereby approves the financing plan described in the recitals of this Resolution. To that end, the City Council hereby approves the issuance of the Bonds by the Authority under the Bond Law in the aggregate principal amount of not to exceed \$45,000,000.

Section 2. Approval of Installment Sale Agreement. The City Council hereby approves the Installment Sale Agreement between the Authority and the City, under which the Authority agrees to sell the completed Water Projects to the City for a purchase price to be paid in semiannual installment payments. As provided in the Installment Sale Agreement, the installment payments thereunder shall be payable from and secured by a pledge of and lien on the net revenues of the Water System.

The Installment Sale Agreement is hereby approved in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the City Manager or the Deputy City Manager/Internal Services Director

(each, an "Authorized Officer"). An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the City to execute, and the City Clerk is hereby authorized and directed to attest, the final form of the Installment Sale Agreement, and such execution shall be conclusive evidence of the approval of the final form thereof.

Section 3. Sale of Bonds; Approval of Bond Purchase Agreement. The City Council hereby approves the negotiated sale of the Bonds by the Authority to Stone & Youngberg LLC (the "Underwriter"). The Bonds shall be sold upon the terms and conditions set forth in the Bond Purchase Agreement in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by an Authorized Officer. As provided in the resolution of the Board of Directors of the Authority authorizing the issuance and sale of the Bonds, the true interest cost of the Bonds shall not exceed 6.0% and the maximum amount of Underwriter's discount on the sale of the Bonds shall not exceed 0.85% of the par amount of the Bonds; provided, however, (i) if an Authorized Officer, after consultation with the City's bond counsel and financial advisor and the Underwriter, concludes that it will be economically beneficial to the City for the Authority to issue all or a portion of the Bonds as taxable bonds under the Build America Bonds program created by the American Recovery and Reinvestment Act of 2009, then the Bonds (or a portion of the Bonds, in a second series) may be issued as taxable bonds, and the true interest cost of such taxable bonds shall not exceed 8.5%. The final form of the Bond Purchase Agreement shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 4. Official Statement. The City Council hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the City Clerk, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the final Official Statement for and in the name and on behalf of the City. The City Council hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

Section 5. Official Actions. The Mayor, the City Manager, the Deputy City Manager/Internal Services Director, the City Clerk, the City Attorney and all other officers of the City are each authorized and directed in the name and on behalf of the City to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution, including any documentation relating to municipal bond insurance if an Authorized Officer concludes, after consultation with the City's bond counsel, the City's financial advisor and the Underwriter, that it would be cost-effective to purchase such insurance. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in case such officer is absent or unavailable.

Section 6. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

Dated: October 6, 2010

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I hereby certify that Resolution No. 2010-_____ was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 6, 2010, by the following vote:

AYES: COUNCIL MEMBERS –

NOES: COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

RANDI JOHL
City Clerk

2010-_____

RESOLUTION NO. 2010-_____

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
LODI PUBLIC FINANCING AUTHORITY AUTHORIZING THE
ISSUANCE AND SALE OF WATER REVENUE BONDS TO
FINANCE THE CONSTRUCTION OF WATER SYSTEM
IMPROVEMENTS, AND APPROVING RELATED DOCUMENTS
AND OFFICIAL ACTIONS

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WHEREAS, the City of Lodi (the "City") owns and operates facilities and property for the supply, treatment and distribution of water within the service area of the City (the "Water System"); and

WHEREAS, in order to provide funds to finance the construction of additional improvements to the Water System (the "Water Projects"), the Lodi Public Financing Authority (the "Authority") proposes to issue its 2010 Water Revenue Bonds (the "Bonds") under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"); and

WHEREAS, in order to provide revenues which are sufficient to pay debt service on the Bonds, the Authority proposes to sell the completed Water Projects to the City under an Installment Sale Agreement, for a purchase price to be paid by the City in semiannual installments during the term of the Bonds; and

WHEREAS, the Authority proposes to sell the Bonds on a negotiated basis to Stone & Youngberg LLC, as underwriter (the "Underwriter"); and

WHEREAS, the Board of Directors of the Authority wishes at this time to take action approving such financing transactions and all related documents and actions;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Lodi Public Financing Authority as follows:

Section 1. Approval of Financing Plan; Authorization of Bonds. The Board of Directors hereby approves the financing plan described in the recitals of this Resolution. To that end, the Board of Directors hereby authorizes the issuance of the Bonds under the Bond Law in the aggregate principal amount of not to exceed \$45,000,000.

Section 2. Approval of Related Financing Agreements. The Board of Directors hereby approves each of the following agreements required to implement the financing plan to be accomplished by the Bonds, in substantially the respective forms on file with the Secretary together with any changes therein or additions thereto deemed advisable by the Executive Director or the Treasurer (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such changes or additions.

- (a) Indenture of Trust between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, prescribing the terms and conditions upon which the Bonds will be issued.
- (b) Installment Sale Agreement between the Authority and the City, under which the Authority agrees to sell the completed Water Projects to the City in consideration of semiannual installment payments.
- (c) Bond Purchase Agreement among the Authority, the City and the Underwriter, under which the Underwriter agrees to purchase the Bonds from the Authority.

An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the Authority to execute, and the Secretary is hereby authorized and directed to attest the final form of each of the foregoing agreements, and such execution shall be conclusive evidence of the approval of the final form thereof.

Section 3. Sale of Bonds. The Board of Directors hereby approves the negotiated sale of the Bonds to the Underwriter. The Bonds shall be sold upon the terms and conditions set forth in the Bond Purchase Agreement which is approved under Section 2. The Board of Directors hereby delegates to an Authorized Officer the authority to accept an offer from the Underwriter to purchase the Bonds, provided that the true interest cost of the Bonds shall not exceed 6.0% and the maximum amount of Underwriter's discount on the sale of the Bonds shall not exceed 0.85% of the par amount of the Bonds; provided, however, (i) if an Authorized Officer, after consultation with the Authority's bond counsel and financial advisor and the Underwriter, concludes that it will be economically beneficial to the Authority to issue all or a portion of the Bonds as taxable bonds under the Build America Bonds program created by the American Recovery and Reinvestment Act of 2009, then the Bonds (or a portion of the Bonds, in a second series) may be issued as taxable bonds, and the true interest cost of such taxable bonds shall not exceed 8.5%. The final form of the Bond Purchase Agreement shall be executed in the name and on behalf of the Authority by an Authorized Officer.

Section 4. Official Statement. The Board of Directors hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the Secretary, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the Final Official Statement for and in the name and on behalf of the Authority. The Board of Directors hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

Section 5. Official Actions. The Chair, the Executive Director, the Treasurer, the Secretary, the Authority's general counsel and all other officers of the Authority are each authorized and directed in the name and on behalf of the Authority to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of

conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution, including any documentation relating to municipal bond insurance if an Authorized Officer concludes, after consultation with the Authority's bond counsel, the Authority's financial advisor and the Underwriter, that it would be cost-effective to purchase such insurance. Whenever in this Resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

Section 6. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

Dated: October 6, 2010

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I hereby certify that Resolution No. 2010-_____ was passed and adopted by the Board of Directors of the Lodi Public Financing Authority in a regular meeting held October 6, 2010, by the following vote:

AYES: BOARD MEMBERS –

NOES: BOARD MEMBERS –

ABSENT: BOARD MEMBERS –

ABSTAIN: BOARD MEMBERS –

RANDI JOHL
Secretary

2010-_____

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
LODI PUBLIC FINANCING AUTHORITY
2010 WATER REVENUE BONDS

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the CITY OF LODI (the "City"), for and on behalf of itself and the Lodi Public Financing Authority (the "Authority"), in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of October 1, 2010 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee.

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means the date that is seven months after the end of the City's fiscal year (currently January 31 based on the City's fiscal year end of June 30).

"*Dissemination Agent*" means The Bank of New York Mellon Trust Company, N.A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Stone & Youngberg LLC, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing January 31, 2011, with the report for the 2009-10 fiscal year (provided that the first report for fiscal year 2009-10 may consist of the Official Statement and the City’s audited financial statements for fiscal year 2009-10), provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) Principal amount of Bonds outstanding as of the end of such fiscal year
- (ii) Balance in the Reserve Account and a statement of the Reserve Requirement as of the end of such fiscal year.
- (iii) Updated information comparable to the information in the chart entitled "City of Lodi Water System Number of Connections by User Type" as it appears in the Official Statement relating to the Certificates (the "Official Statement");
- (iv) Updated information comparable to the information in the chart entitled "City of Lodi Water System Largest Users by Service Charge Revenues" as it appears in the Official Statement;
- (v) Updated information for such fiscal year comparable to the information in the table entitled "Selected Rates Effective January 1, 2011," as it appears in the Official Statement;
- (vi) Updated information for such fiscal year and the four previous fiscal years only comparable to the information in the charts entitled "City of Lodi Water System Historic Operating Results and Debt Service Coverage," as it appears in the Official Statement; and
- (vii) A description of any additional indebtedness incurred during the prior fiscal year which is payable from Net Revenues on a parity with the Installment Payments.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.

- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Trustee. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific

performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2010

CITY OF LODI

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Lodi Public Financing Authority

Name of Issue: Lodi Public Financing 2010 Water Revenue Bonds

Date of Issuance: October __, 2010

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated October __, 2010. The City anticipates that the Annual Report will be filed by

Dated: _____

DISSEMINATION AGENT:

By: _____

Its: _____

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2010

NEW ISSUE - FULL BOOK-ENTRY ONLY

Ratings:

Moody's: —

S&P: —

(See "Ratings")

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, under existing law, the interest on the Series 2010B Bonds is not intended to be excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2010 Bonds is exempt from California personal income taxes. See "TAX MATTERS."

LODI PUBLIC FINANCING AUTHORITY

\$ _____
2010 Water Revenue Bonds,
Series A

\$ _____
2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds - Direct
Payment)

Dated: Date of Delivery

Due: June 1, as set forth on the inside front cover

The \$ _____ 2010 Water Revenue Bonds, Series A (the "Series 2010A Bonds") and \$ _____ 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds - Direct Payment) (the "Series 2010B Bonds") and, together with the Series 2010A Bonds, the "Series 2010 Bonds") are being issued by the Lodi Public Financing Authority (the "Authority") pursuant to an Indenture of Trust, dated as of October 1, 2010, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (the "Indenture"), for the purpose of providing funds to (i) pay the cost of a new water treatment facility (the "Treatment Facility") to treat water to be provided by the City of Lodi's water system (the "Water System"); (ii) fund a deposit in the Reserve Account in an amount equal to the Reserve Requirement; and (iii) pay costs of issuance. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF BOND PROCEEDS."

The Series 2010 Bonds are special, limited obligations of the Authority payable solely from Authority Revenues and all amounts (including proceeds of the sale of the Series 2010 Bonds) held in any fund or account established under the Indenture (subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein). "Authority Revenues" consist primarily of installment payments (the "2010 Installment Payments") received by the Trustee from the City of Lodi, California (the "City") pursuant to an Installment Sale Agreement, dated as of October 1, 2010 (the "2010 Installment Sale Agreement"), between the City and the Authority.

The 2010 Installment Sale Agreement is a special obligation of the City, payable solely from the Net Revenues of the Water System. "Net Revenues" means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period. "Gross Revenues" generally means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Water System or otherwise arising from the Water System.

Subject to the terms and condition of the 2010 Installment Sale Agreement, as more fully described herein, the City may enter into additional obligations payable from Net Revenues on a parity with the 2010 Installment Payments ("Parity Debt"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS - The 2010 Installment Sale Agreement - Additional Parity Debt" herein.

THE SERIES 2010 BONDS ARE NOT A DEBT OF THE CITY, THE COUNTY OF SAN JOAQUIN, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE CITY, THE COUNTY, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS, IS LIABLE HEREON NOR IN ANY EVENT SHALL THE SERIES 2010 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE AUTHORITY OTHER THAN THE AUTHORITY REVENUES.

The Series 2010 Bonds are subject to redemption prior to maturity, as more fully described in this Official Statement. See "THE SERIES 2010 BONDS - Redemption."

The Series 2010B Bonds will be issued as bonds designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), the interest on which is not excluded from gross income for purposes of federal income taxation. See "TAX MATTERS."

Interest on the Series 2010 Bonds is payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. The Series 2010 Bonds are being issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2010 Bonds. Individual purchases will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Series 2010 Bonds purchased. See APPENDIX E— "DTC AND THE BOOK-ENTRY ONLY SYSTEM" hereto.

This cover page contains certain information for general reference only and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "CERTAIN RISK FACTORS" for a description of certain of the risks associated with an investment in the Series 2010 Bonds.

The Series 2010 Bonds are offered when, as and if executed and delivered to the Underwriter, subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, and for the City and the Authority by the City Attorney of the City. It is expected that the Series 2010 Bonds in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about October __, 2010.

STONE & YOUNGBERG

Dated: October __, 2010

* Preliminary; subject to change.

DOCSOC/1418056v16/022245-0221

MATURITY SCHEDULE

\$ _____ * Series 2010A Serial Bonds

<i><u>Maturity</u></i> <i><u>(June 1)</u></i>	<i><u>Principal</u></i> <i><u>Amount</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Yield</u></i>	<i><u>CUSIP</u></i> <i><u>No.[†]</u></i>
--	---	--	---------------------	--

\$ _____ % Series 2010A Term Bonds due June 1, 20__ - Yield: __. __ % - CUSIP _____^t

\$ _____ % Series 2010B Term Bonds due June 1, 20__ - Yield: __. __ % - CUSIP _____^t

* Preliminary; subject to change.

[†] Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. The Authority, the City and the Underwriter do not assume any responsibility for the accuracy of such numbers.

CITY OF LODI, CALIFORNIA

City Council

Phil Katzakian, Mayor
Susan Hitchcock, Mayor Pro Tempore
Larry D. Hansen, Council Member
JoAnne Mounce, Council Member
Bob Johnson, Council Member

City Officials

Konradt Bartlam, Interim City Manager
Jordan Ayers, Deputy City Manager
Randi Johl, City Clerk
D. Stephen Schwabauer, City Attorney
F. Wally Sandelin, Public Works Director

LODI PUBLIC FINANCING AUTHORITY

Board of Directors

Phil Katzakian
Susan Hitchcock
Larry D. Hansen
Bob Johnson
JoAnne Mounce

SPECIAL SERVICES

Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

The Bank of New York Trust Company, N.A.
San Francisco, California

Financial Advisor

Lamont Financial Services Corp.
Los Angeles, California

Consulting Engineer

HDR, Inc.
Folsom, California

Rate Consultant

The Reed Group, Inc.
Sacramento, California

No dealer, broker, salesperson or other person has been authorized by the City, the Authority or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2010 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2010 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs of the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

In connection with this offering, the Underwriter may overallocate or effect transactions which may stabilize or maintain the market price of the Series 2010 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way. Although the City will provide certain information annually as specifically set forth in the Continuing Disclosure Certificate, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

The Series 2010 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act.

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OFFICIAL STATEMENT

Lodi Public Financing Authority
2010 Water Revenue Bonds,
Series A

\$_____
Lodi Public Financing Authority
2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds –
Direct Payment)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2010 Bonds being offered and a brief description of the Official Statement (which includes the cover page and Appendices hereto). All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Indenture or the 2010 Installment Sale Agreement. See APPENDIX F — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions” hereto.

Purpose of this Official Statement

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale of the Lodi Public Financing Authority’s (the “Authority”) \$_____ * 2010 Water Revenue Bonds, Series A (the “Series 2010A Bonds”) and \$_____ * 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds – Direct Payment) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “Series 2010 Bonds”) pursuant to an Indenture of Trust, dated as of October 1, 2010, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) (the “Indenture”), for the purpose of providing funds to (i) pay the cost of a new water treatment facility (the “Treatment Facility”) to treat water to be provided within the service area of the City (the “Water System”); (ii) fund a deposit in the Reserve Account in an amount equal to the Reserve Requirement; (iii) pay costs of issuance. The Series 2010 Bonds will be issued in full conformity with the Constitution and the laws of the State of California (the “State”), including the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Act”). See “THE TREATMENT FACILITY,” “PLAN OF FINANCING” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS” herein.

The City and the Water System

The City of Lodi (the “City”) is located in the County of San Joaquin between Stockton and Sacramento, and adjacent to U.S. Highway 99, approximately 90 miles east of San Francisco. The City owns and operates the Water System, which includes over 237 miles of pipe, 27 groundwater wells, two storage tanks and various pumping stations and related facilities and equipment. The

* Preliminary; subject to change.

service area of the Water System covers approximately 11.5 square miles and serves about 23,000 accounts and a population of approximately 63,000. See “THE WATER SYSTEM – General” herein.

The Authority

The Authority was created by a Joint Exercise of Powers Agreement between the City and the Industrial Development Authority of the City of Lodi pursuant to the provisions of the Act. The Authority was created for the purpose of facilitating the financing of the acquisition and/or construction of real and personal property in and for the City. See “THE AUTHORITY” herein.

Security and Sources of Payment for the Series 2010 Bonds

The Series 2010 Bonds are special, limited obligations of the Authority payable solely from Authority Revenues and all amounts (including proceeds of the sale of the Series 2010 Bonds) held in any fund or account established under this Indenture (subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein). “Authority Revenues” consist primarily of installment payments (the “2010 Installment Payments”) received by the Trustee from the City pursuant to an Installment Sale Agreement, dated as of October 1, 2010 (the “2010 Installment Sale Agreement”) between the City and the Authority.

The 2010 Installment Sale Agreement is a special obligation of the City, payable solely from the Net Revenues of the Water System. “Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period. “Gross Revenues” generally means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Water System or otherwise arising from the Water System. The Authority is not obligated to pay interest on or principal of or redemption premiums, if any, on the Series 2010 Bonds except from Authority Revenues.

THE SERIES 2010 BONDS ARE NOT A DEBT OF THE CITY, THE COUNTY OF SAN JOAQUIN, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE CITY, THE COUNTY, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS, IS LIABLE HEREON NOR IN ANY EVENT SHALL THE SERIES 2010 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE AUTHORITY OTHER THAN THE AUTHORITY REVENUES.

Additional Obligations

Subject to the terms and conditions of the 2010 Installment Sale Agreement, the City may enter into additional obligations payable from Net Revenues on a parity with the 2010 Installment Payments (“Parity Debt”), subject to the terms and conditions of the 2010 Installment Sale Agreement, as more fully described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS – The 2010 Installment Sale Agreement – Additional Parity Debt” herein.

Rate Covenant

The City covenants in the Installment Purchase Agreement to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Bond Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority: (i) all Operation and Maintenance Costs estimated by the City to become due and payable in such Bond Year; (ii) all 2010 Installment Payments and all payments of principal of and interest on any Parity Debt as they become due and payable during such Bond Year, without preference or priority, except to the extent any of such payments are payable from bond proceeds or from any other source of legally available funds of the City which have been deposited with the Trustee for such purpose prior to the commencement of the related Bond Year; (iii) all amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement, and to restore the balance in the reserve account established for any Parity Debt to their required balances; and (iv) all Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Bond Year.

In addition, the City covenants to prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Bond Year which are sufficient to yield both of the following:

(a) Net Revenues equal to at least 125% of the amount described in the preceding clause (ii) that is due in such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of Net Revenues, as provided in the Installment Sale Agreement, but only to the extent that the moneys transferred from the Rate Stabilization Fund would not otherwise constitute Gross Revenues for the Fiscal Year.

(b) Net Revenues equal to at least 100% of the amounts described in the preceding clauses (ii) and (iii) that are due in such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (A) any connection charges (including the City's impact mitigation fees) deposited into the Water System Fund in that Fiscal Year shall not be included, (B) any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund shall not be included in the calculation of Net Revenues, and (C) any deposits into the Rate Stabilization Fund in that Fiscal Year shall be included in the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

See "SECURITY AND SOURCES OF PAYMENT FOR THE Series 2010 Bonds—Rate Covenant".

Reserve Account

A Reserve Account is established with the Trustee pursuant to the Trust Agreement in an amount equal to the Reserve Account Requirement. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying interest on or principal of the Series 2010 Bonds, when due and payable to the extent that moneys deposited in the Interest Account

or Principal Account, respectively, are not sufficient for such purpose, (ii) paying the redemption price of any Term Bonds in the event that amounts on deposit in the Principal Account are not sufficient for such purpose, and (iii) paying debt service on any issue of Parity Debt for which a reserve fund is established as part of a common reserve fund for the Series 2010 Bonds and such Parity Debt, as provided in the 2010 Installment Sale Agreement.

Consulting Engineer's Report and Rate Consultant's Report

In preparing this Official Statement, the Authority and City have relied, in part, upon studies, considerations, assumptions and opinions set forth in (i) the report dated October __, 2010, furnished by HDR Inc., Folsom, California, as consulting engineer (the "Consulting Engineer"), a copy of which is attached hereto as Appendix A (the "Consulting Engineer's Report") and (ii) the report dated October __, 2010, furnished by The Reed Group, Inc., Sacramento, California, as rate consultant (the "Rate Consultant"), a copy of which is attached hereto as Appendix B (the "Rate Consultant's Report").

Continuing Disclosure

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2010 Bonds to provide certain financial information and operating data relating to the Water System by not later than 210 days following the end of the City's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for Fiscal Year 2009-10, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through its EMMA system. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX G — "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). See "CONTINUING DISCLOSURE" herein. The City has not failed to comply in all material respects in the last five years with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Other Matters

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Copies of the 2010 Installment Sale Agreement and the Indenture will be available for inspection at the offices of the City in Lodi, California, and will be available upon request and payment of duplication costs from the Trustee.

PLAN OF FINANCE

The Series 2010 Bonds are being executed and delivered for the purpose of providing funds to (i) pay the cost of the Treatment Facility; (ii) fund a deposit in the Reserve Account in an amount equal to the Reserve Requirement; and (iii) pay costs of issuance. See “THE TREATMENT FACILITY.”

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The estimated sources and uses of funds for the Series 2010 Bonds are as follows:

<u>Sources:</u>	<u>Series 2010 A Bonds</u>	<u>Series 2010 B Bonds</u>	<u>Total</u>
Proceeds of the Series 2010 Bonds	\$	\$	
Original Issue Premium			
Total Sources	\$	\$	
<u>Uses:</u>			
Deposit to Project Fund	\$	\$	
Deposit to Reserve Account			
Deposit to Cost of Issuance Fund ⁽¹⁾			
Total Uses	\$	\$	

⁽¹⁾ Includes rating agency, legal, financial advisory, printing, trustee fees, Underwriter’s discount and other costs of issuance.

THE SERIES 2010 BONDS

The Series 2010 Bonds shall be dated as of the date of delivery, shall bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) at the rates per annum (payable semiannually on June 1 and December 1 in each year, commencing on June 1, 2011) and shall mature and become payable on June 1 in each of the years in the principal amounts set forth on the inside front cover page hereof. The Series 2010 Bonds shall be issued as fully registered Series 2010 Bonds in denominations of five thousand dollars (\$5,000) or any integral multiple of five thousand dollars (\$5,000) (not exceeding the principal amount of Series 2010 Bonds maturing at any one time). The Series 2010 Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of a nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2010 Bonds. For so long as Cede & Co., as nominee of DTC, is registered owner of the Series 2010 Bonds, payments of the principal of, premium, if any, and interest on Series 2010 Bonds will be made directly to DTC. Disbursement of such payment to the DTC Participants is the responsibility of the DTC Participants and the Indirect Participants, each such term as hereinafter defined. See APPENDIX E — “BOOK-ENTRY ONLY SYSTEM” hereto.

Designation of Taxable Series 2010B Bonds as Build America Bonds

The Series 2010B Bonds may be issued as “Build America Bonds” under the provisions of the Recovery Act. If issued as Build America Bonds, the Authority would expect to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Series 2010B Bonds on or about each Interest Payment Date. The cash payment does not constitute a full faith and credit guarantee of the United States, but is required to be paid by the Treasury under the

Recovery Act. Any cash subsidy payments received by the Authority will be transferred to the City and will constitute "Revenues" pursuant to the 2010 Installment Sale Agreement. The Authority is obligated to make all payments of principal of and interest on the Series 2010B Bonds whether or not it receives any cash subsidy payments pursuant to the Recovery Act.

Redemption

Series 2010A Bonds

Optional Redemption. The Series 2010A Bonds maturing on or before June 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The Series A Bonds maturing on or after June 1, 20__, are subject to redemption in whole, or in part at the Written Request of the Authority among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after June 1, 20__, from any available source of funds, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2010A Bonds maturing June 1, 20__ are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables; provided, however, that if some but not all of the Term Bonds have been optionally redeemed, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Series 2010A Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Series 2010A Bonds

**Sinking Fund
Redemption Date
(June 1)**

**Principal Amount
To be Redeemed**

Series 2010B Bonds

Optional Redemption. The Series 2010B Bonds shall be subject to redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part (and if in part, in such order of maturity as the Authority shall specify) on any date, at a redemption price equal to __\$ of the principal amount of Series 2010B Bonds called for redemption, together with accrued interest to the date fixed for redemption.

Extraordinary Optional Redemption of the 2010 Bonds. The Series 2010B Bonds shall be subject to redemption prior to their respective stated maturity dates, at the option of the City upon the occurrence of a Tax Law Change, from any source of available funds, as a whole or in part (and if in

part, in such order of maturity as the Authority shall specify) on any date, at a redemption price equal to 100% of the principal amount of Series 2010B Bonds called for redemption plus the Make-Whole Premium, if any, plus accrued interest to the date fixed for redemption.

“Calculation Agent” means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities designated by the Authority.

“Comparable Treasury Issue” means the United States Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Series 2010B Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2010B Bond being redeemed.

“Comparable Treasury Price” means, with respect to any date on which a Series 2010B Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time, at least three (3) Business Days but not more than forty-five (45) calendar days preceding the date fixed for redemption.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2010B Bond being redeemed. The Comparable Treasury Yield will be determined at least three (3) Business Days but not more than forty-five (45) calendar days preceding the date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2010B Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Series 2010B Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2010B Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Make-Whole Premium” means, with respect to any Series 2010B Bond to be redeemed, an amount calculated by the Calculation Agent equal to the positive difference, if any, between:

(a) The sum of the present values, calculated as of the date fixed for redemption of:

(1) Each interest payment that, but for the redemption, would have been payable on the Series 2010B Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such Series 2010B Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled Interest Payment Date with respect to such Series 2010B Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Series 2010B Bond to the date fixed for redemption; plus

(2) The principal amount that, but for such redemption, would have been payable on the maturity date of the Series 2010B Bond or portion thereof being redeemed; minus

(b) The principal amount of the Series 2010B Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (a) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve (12) 30-day months) at a discount rate equal to the Comparable Treasury Yield, plus the Spread.

“Reference Treasury Dealer” means a primary dealer of United States Government securities appointed by the Authority and reasonably acceptable to the Calculation Agent.

“Spread” means for optional redemptions ____% and for extraordinary optional redemptions ____%.

“Subsidy Payments” means payments from the United States Treasury to or upon the order of the Authority with respect to the Series 2010B Bonds pursuant to Sections ~~54AA~~ and 6431 of the Code in an amount equal to 35% of the interest due thereon on each Interest Payment Date.

“Tax Law Change” means legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Authority, would be to suspend, reduce or terminate the Subsidy Payments or any similar payments to state or local government issuers generally with respect to obligations of the general character of the Series 2010B Bonds; provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by the Authority to comply with the requirements under the Code to receive such Subsidy Payments.

Mandatory Sinking Fund Redemption. The Series 2010B Bonds maturing June 1, 20__ are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal

amounts and on June 1 in the respective years as set forth in the following tables; provided, however, that if some but not all of the Term Bonds have been optionally redeemed, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Series 2010B Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Series 2010B Bonds

Sinking Fund Redemption Date <u>{June 1}</u>	Principal Amount <u>To be Redeemed</u>
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Notice of Redemption

The Indenture provides that the Trustee shall mail notice of redemption of the Series 2010 Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Series 2010 Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Municipal Securities Rulemaking Board. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Series 2010 Bonds (or all Series 2010 Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Series 2010 Bonds within a maturity are called for redemption) Bond numbers of the Series 2010 Bonds to be redeemed and the maturity or maturities of the Series 2010 Bonds to be redeemed, and in the case of Series 2010 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Series 2010 Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2010 Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Series 2010 Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

The Authority has the right to rescind any notice of optional redemption of the Series 2010 Bonds by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Series 2010 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Authority and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

Selection of Series 2010A Bonds To Be Redeemed

Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee shall select the Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Selection of Series 2010B Bonds To Be Redeemed

If the Series 2010B Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Series 2010B Bonds, if less than all of the Series 2010B Bonds of a maturity are called for prior redemption, the particular Series 2010B Bonds or portions thereof to be redeemed shall be selected by the Trustee on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the Series 2010B Bonds are held in book-entry form, the selection for redemption of such Series 2010B Bonds shall be made by the Trustee in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Trustee pursuant to DTC operational arrangements. If the Trustee does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the Series 2010B Bonds shall be selected for redemption by lot by the Trustee in accordance with DTC procedures. Redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Authority and the Beneficial Owners are to be made on a “Pro Rata Pass-Through Distribution of Principal” basis as described above. If the DTC operational arrangements do not allow for the redemption of the Series 2010B Bonds on a Pro Rata Pass-Through Distribution of Principal basis as described above, then the Series 2010B Bonds shall be selected for redemption by lot by the Trustee in accordance with DTC procedures.

If the Series 2010B Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the Series 2010B Bonds shall be effected by the Trustee among owners on a pro-rata basis subject to minimum Authorized Denominations. The particular Series 2010B Bonds to be redeemed shall be determined by the Trustee, using such method as it shall deem fair and appropriate.

Effect of Redemption

Notice of redemption having been duly given in accordance with the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Series 2010 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Series 2010 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS

Pledge Under the Indenture

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Authority Revenues and all amounts (including proceeds of the sale of the Series 2010 Bonds) held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest and premium (if any) on the Series 2010 Bonds in accordance with their terms and the provisions of the Indenture. "Authority Revenues" means: (a) all of the 2010 Installment Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms of the Indenture to the payment of the principal of and interest and premium (if any) on the Series 2010 Bonds.

Pursuant to the Indenture, the Authority irrevocably transfers, assigns and sets over to the Trustee, without recourse to the Authority, all of its rights in the 2010 Installment Sale Agreement (excepting only certain reserved rights), including but not limited to all of the Authority's rights to receive and collect all of the 2010 Installment Payments. The Trustee is entitled to collect and receive all of the 2010 Installment Payments, and any Installment Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

THE SERIES 2010 BONDS ARE NOT A DEBT OF THE CITY, THE COUNTY OF SAN JOAQUIN, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE CITY, THE COUNTY, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS, IS LIABLE HEREON NOR IN ANY EVENT SHALL THE SERIES 2010 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE AUTHORITY OTHER THAN THE AUTHORITY REVENUES.

Reserve Account. A Reserve Account to be held by the Trustee, is established pursuant to the Indenture. Within the Reserve Account a Series A Subaccount and a Series B Subaccount are established.

All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying interest on or principal of the Series 2010 Bonds, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, (ii) paying the redemption price of any Term Bonds to be redeemed in the event that amounts on deposit in the Principal Account are not sufficient for such purpose, and (iii) paying debt service on any issue of Parity Debt for which a reserve fund is established as part of a common reserve fund for the Series 2010 Bonds and such Parity Debt.

The Reserve Account shall be deemed to be held for the equal and proportionate benefit of the Owners of the Bonds and the owners of all outstanding Parity Debt (excluding Parity Debt for which no reserve fund is established as provided in the 2010 Installment Sale Agreement).

Pursuant to the Indenture, the Authority has the right at any time to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (a) a Qualified Reserve Account Credit Instrument; and (b) an opinion of Bond Counsel stating that such release will not, of itself, cause interest on the Series A Bonds to become includable in gross income for purposes of federal income taxation. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall be obligated either (a) to replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (b) to deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement.

Any amounts on deposit in the Reserve Account at any time in excess of the Reserve Requirement shall be transferred to the Bond Fund. Surplus amounts transferred from the Series A Subaccount shall be used to pay debt service on the Series A Bonds and surplus amounts transferred from the Series B Subaccount shall be used to pay debt service on the Series B Bonds.

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee which meets the requirements of the Indenture including the requirement that the long-term credit rating of such bank or insurance company is AA or better from S&P.

The 2010 Installment Sale Agreement

2010 Installment Payments. The City has agreed in the 2010 Installment Sale Agreement to make the 2010 Installment Payments, solely from Net Revenues as described below. The obligations of the City to pay the 2010 Installment Payments from the Net Revenues and to perform and observe the other agreements contained herein are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Authority or the Trustee of any obligation to the City or otherwise with respect to the Water System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

The obligation of the City to pay the 2010 Installment Payments is limited to the Net Revenues. “Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to connection charges (including the City’s impact mitigation fees) to the extent permitted by law, investment earnings thereon and the Refundable Credits; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the City relating to the Water System and (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Water System.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Water System, including but not limited to (a) costs of acquisition of water to be supplied by the Water System, (b) costs of electricity and other

forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water System; but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Water System, including but not limited to the **2010** Installment Payments and any Parity Debt, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Pledge of Net Revenues. Pursuant to the **2010** Installment Sale Agreement, the City establishes a pledge of, lien on and security interest in all of the Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture to secure the **2010** Installment Payments and any Parity Debt. Payment of the **2010** Installment Payments and the principal of and interest on any Parity Debt will be made without preference or priority among the **2010** Installment Payments and such Parity Debt. If the amount of Net Revenues on deposit in the Water System Fund is any time insufficient to enable the City to pay when due the **2010** Installment Payments and the principal of and interest on any Parity Debt, such payments will be made on a pro rata basis.

Application of Gross Revenues. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all Gross Revenues, including, without limitation, Refundable Credits, shall be received by the City in trust hereunder and shall be deposited when and as received in a special fund designated as the “Water System Fund”, which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments remain unpaid. To the extent the City has an existing fund or existing funds which satisfy the foregoing requirements, then such shall be deemed to be the “Water System Fund” and the City shall not be required to create a new fund. The City may maintain separate funds or accounts within the Water System Fund. Moneys in the Water System Fund shall be used and applied by the City as provided in this Agreement and any Parity Debt Documents.

Amounts on deposit in the Water System Fund will be applied by the City to pay when due the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs;
- (ii) the **2010** Installment Payments and all payments of principal of and interest on any Parity Debt;
- (iii) to the Trustee the amount of any deficiency in the Reserve Account established for the Series **2010** Bonds and in any reserve account established for Parity Debt, the notice of which deficiency has been given to the City in accordance with the Indenture and in accordance with the applicable provisions of the related Parity Debt Documents;
- (iv) any other payments required to comply with the provisions of the **2010** Installment Sale Agreement and any Parity Debt Documents; and
- (v) the payment of any subordinate obligations or any unsecured obligations, (a) the acquisition and construction of improvements to the Water System, (b) the

prepayment of any other obligations of the City relating to the Water System, or (c) any other lawful purposes of the City.

Rate Stabilization Fund. The City has the right at any time to establish a fund to be held by it and administered in accordance with the 2010 Installment Sale Agreement, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the 2010 Installment Payments and any Parity Debt, as the City may determine. The Rate Stabilization Fund shall be accounted for as a separate fund, although amounts credited to it may be commingled with other funds of the City.

The City may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water System Fund in any Fiscal Year for the purpose of paying the 2010 Installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water System Fund in any Fiscal Year constitute Gross Revenues for that Fiscal Year (except as otherwise provided in the 2010 Installment Sale Agreement), and will be applied for the purposes of the Water System Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not otherwise secure the 2010 Installment Payments or any Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

Rate Covenant; Collection of Rates and Charges.

(a) **Covenant Regarding Gross Revenues.** The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;

(ii) All Installment Payments and all payments of principal of and interest on any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent any of such payments are payable from bond proceeds or from any other source of legally available funds of the City which have been deposited with the Trustee for such purpose prior to the commencement of the related Fiscal Year;

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement, and to restore the balance in the reserve account established for any Parity Debt to their required balances; and

(iv) All Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

(b) **Covenant Regarding Net Revenues.** In addition, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield both of the following:

(i) Net Revenues equal to at least 125% of the amount described in the preceding clause (ii) that is due in such Fiscal Year. For purposes of this paragraph (b)(i), the amount of Net Revenues for a Fiscal Year will be computed on the basis that (A) any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of Net Revenues, as provided in Section 4.6, and (B) any deposits into the Rate Stabilization Fund in that Fiscal Year are deducted from the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

(ii) Net Revenues equal to at least 100% of the amounts described in the preceding clauses (ii) and (iii) that are due in such Fiscal Year. For purposes of this paragraph (b)(ii), the amount of Net Revenues for a Fiscal Year will be computed on the basis that (A) any connection charges (including the City's impact mitigation fees) deposited into the Water System Fund in that Fiscal Year shall not be included, (B) any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund shall not be included in the calculation of Net Revenues, and (C) any deposits into the Rate Stabilization Fund in that Fiscal Year shall be included in the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

For purposes of compliance with the covenants described above, the amount of any Refundable Credits that the City expects to receive in a Fiscal Year shall be excluded from the amount of Gross Revenues for such Fiscal Year, but shall be included as a credit against the applicable amount of Installment Payments or debt service on Parity Debt coming due in such Fiscal Year.

"Refundable Credits" means the amounts (if any) which are payable to the City in connection with the issuance of "Build America Bonds by the federal government under Section 6431 of the Tax Code, which the issuer of such Build America Bonds elects to receive under Section 54AA(g)(1) of the Tax Code.

2010 Installment Payments Schedule and Debt Service Schedule. The 2010 Installment Sale Agreement requires semi-annual payments of principal and interest to the Trustee, as assignee of the Authority, commencing June 1, 2011. Pursuant to the Indenture and the 2010 Installment Sale Agreement, the 2010 Installment Payments will be deposited in the Bond Fund and applied in accordance with the provisions of the Indenture. Debt service with respect to the Series 2010 Bonds is set forth below:

DEBT SERVICE SCHEDULE

<u>Bond Year Ending June 1</u>	<u>Series 2010A Bonds</u>		<u>Series 2010B Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					

Additional Parity Debt. Except for obligations incurred to prepay or discharge the 2010 Installment Payments or any Parity Debt, the City may not issue or incur any Parity Debt during the Term hereof unless the conditions set forth in the 2010 Installment Sale Agreement are satisfied, including the following:

(a) No Event of Default has occurred and is continuing (unless the Event of Default will be cured as a result of the issuance of the Parity Debt).

(b) The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements are available, or for any more recent consecutive 12-month period selected by the City at its option, in either case verified by a certificate or opinion of an Independent Accountant or Fiscal Consultant, plus the Additional Revenues, at least equal 125% of the amount of Maximum Annual Debt Service with respect to the 2010 Installment Payments and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued). For purposes of this paragraph, the amount of any Refundable Credits that the City expects to receive in a Fiscal Year shall be excluded from the amount of Gross Revenues for such Fiscal Year, but shall be included as a credit against the applicable amount of Installment Payments and principal of and interest on any Parity Debt coming due in such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of Net Revenues, as provided in the Installment Sale Agreement (but only to the extent that the moneys transferred from the Rate Stabilization Fund would not otherwise constitute Gross Revenues for the applicable Fiscal Year).

(c) Except as provided below, upon the issuance of such Parity Debt a reserve fund shall be established for such Parity Debt. The reserve fund which is established for an issue of Parity Debt shall be required to be maintained in an amount which, together with the aggregate amount required to be on deposit in all of the reserve funds established for the Bonds and other outstanding Parity Debt, is at least equal to Maximum Annual Debt Service on the 2010 Installment Payments and all outstanding Parity Debt, taken as a whole (other than Parity Debt for which no reserve fund is established as described below). Notwithstanding the foregoing, the amount which is required to be maintained in any reserve fund which is established for Parity Debt shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Tax Code. The Reserve Account and all other reserve funds which are funded from the proceeds of Parity Debt shall constitute a single reserve for the equal and proportionate benefit of the Bonds and all outstanding Parity Debt (other than Parity Debt for which no reserve fund established as required below), without preference or priority. Any such reserve fund may be maintained in the form of a letter of credit or surety bond.

In the event the City issues Parity Debt the purchaser of which does not require the establishment of a reserve fund, such Parity Debt may be issued without a reserve fund. However, in that event, such Parity Debt is not entitled to the security of amounts held in the reserve fund which is established for the Bonds or for any other issue of Parity Debt, and such Parity Debt will be disregarded in determining the amount required to be maintained in any other reserve fund established for outstanding Parity Debt.

Outstanding Obligations. Other than the Series 2010 Bonds, there is no Parity Debt Outstanding.

Execution of Subordinate Obligations. Nothing in the 2010 Installment Sale Agreement limits or affects the ability of the City to issue or incur obligations which are either unsecured or

which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the 2010 Installment Sale Agreement.

THE WATER SYSTEM

General

The City of Lodi is located in the County of San Joaquin (the “County”) between Stockton and Sacramento, and adjacent to U.S. Highway 99, approximately 90 miles east of San Francisco. The City was incorporated as a General Law City on December 6, 1906.

The City operates under a City Council-Manager form of government and provides the following services: public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

As of January 1, 2010, the City had an estimated population of 63,000 within an area of approximately 13.9 square miles.

See “APPENDIX C – THE CITY OF LODI”. Since 1910, the City has been providing portable water to the community.

Governance and Management

The City is governed by a five-member City Council comprised of members elected at large. Each council member is elected for four years with staggered terms.

The current City Council members and the expiration dates of their terms are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Phil Katzakian	Mayor	December 8, 2010
Susan Hitchcock	Mayor Pro Tempore	December 8, 2010
Larry D. Hansen	Council Member	December 8, 2010
Bob Johnson	Council Member	December 5, 2012
Joanne Mounce	Council Member	December 5, 2012

Konrad Bartlam, Interim City Manager, was appointed Interim City Manager by the City Council in April 2010. **Mr.** Bartlam is also the City’s Community Development Director, a position he was first appointed to in 1996 and again in 2008 after a three-year stint in private practice. Before coming to Lodi, **Mr.** Bartlam held management positions in several California communities, beginning his career in 1981. **Mr.** Bartlam earned his Bachelor’s degree in Urban and Regional Planning from California State Polytechnic University, Pomona.

Jordan Ayers, Deputy City Manager/Internal Services Director was appointed to the position in December 2008. **Mr.** Ayers manages the City’s budget and finance divisions, including those of the Water System, along with the Human Resources division, Information Technology division and Risk Management functions. He came to Lodi with nearly 26 years experience as a senior-level finance, budgetary and administrative professional with Sacramento County. He earned his

Bachelor's degree in Business Administration with concentrations in Accounting and Management Information Sciences from California State University, Sacramento.

F. Wally Sandelin, Public Works Director, has overseen the City's wastewater, water, drainage, street, traffic, and public building infrastructure since his appointment in 2008. **Mr. Sandelin**, a registered civil engineer, earned his Bachelor of Science and Master of Science degree from the University of California, Davis. He has been on the City's Public Works staff since 2000, beginning as City Engineer.

Employees

As of July 1, 2010, the City had **43** full-time equivalent employee positions budgeted for the Water System and the City's wastewater system. Employees of the Water System and the City's wastewater system are represented by the American Federation of State, County and Municipal Employees Maintenance and Operators Bargaining Unit, whose Memorandum of Understanding is set to expire on December 31, 2011. The City has never experienced a labor strike.

Retirement Programs

The Water System is responsible for a portion of the City's personnel costs. Retirement benefits to City employees, in the form of pension benefits provided through the City's participation in the California Public Employees Retirement System, are described in Note 10 to the City's audited financial statements included in Appendix D hereto. Retirement costs associated with City employees assigned to the Water System are as follows:

TABLE 1
RETIREMENT COSTS PAYABLE FROM
REVENUES OF THE WATER SYSTEM

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2007-08	\$175,800
2008-09	\$181,600
2009-10 (est.)	\$180,300
2010-11 (est.)	\$205,600

Source: City of Lodi

In addition to required contributions for retirement benefits for City employees assigned to the Water System, the City pays certain post-employment health care and other non-pension ("OPEB") benefits for such employees. The City pays for OPEB costs on a pay-as-you-go basis. City OPEB related payments for Fiscal Year 2009-09 totaled \$589,652. Approximately four percent of the City employees are assigned to the Water System and it is reasonable to expect that a similar ratio of costs is attributable to Water System employees. City costs for OPEB for Fiscal Year 2009-10 are estimated to be \$510,000; fiscal Year 2010-11 costs have been estimated to be \$577,000. Staffing levels are expected to remain the same. See APPENDIX D – "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED **JUNE 30, 2009**" – Note 11 to the Basic Financial Statements" for a discussion of the City's OPEB liabilities.

There can be no assurances that retirement costs and OPEB costs payable from revenues of the Water System will not significantly increase in future fiscal years.

Insurance

The City's boiler and machinery operations (including those parts of the Water System) are insured by Hartford Steam Boiler for up to \$21,250,000 per occurrence as part of a pooled program through California Joint Powers **Risk** Management Agency ("CJPRMA"). The City, including the Water System, is self-insured for general liability losses for up to \$500,000 and has pooled excess coverage through the CJPRMA for up to \$40 million per occurrence. The City is self-insured for workers' compensation losses for up to \$250,000 and has pooled excess coverage through the Local Agency Workers' Compensation Excess Authority for up to \$300,000,000.

Water System Facilities

The Water System consists of 237 miles of water pipes ranging in diameter from two to fourteen inches, twenty-seven groundwater wells with a total pumping capacity of approximately 37,000 gallons per minute, and two storage tanks, including a 100,000 gallon elevated tank and a one million gallon ground level tank with booster pumping station.

Distribution System. The distribution system consists of approximately 237 miles of pipe ranging in size from two inches to fourteen inches and serves an area of 11.5 square miles. The distribution system currently serves over 23,000 accounts (most of which are residential), 1,400 acres of commercial/industrial development, and 250 acres of schools. There is a single pressure zone within the service area. The City acquired the Water System in 1910 when the population of the City was approximately 2,000. The Water System has slowly expanded to serve the current community of approximately 63,000 residents. The distribution system age ranges from 100 years to new and little replacement has occurred over the past 100 years. The City has implemented a program to replace the oldest and smallest pipes as described below in "Capital Improvement Plan."

Supply. Groundwater currently serves as the sole source of water supply to the City. The City overlays a portion of the San Joaquin Valley groundwater basin. The basin from which the City draws the groundwater has not been adjudicated before the State Water Resources Control Board to limit groundwater draws by users to a sustainable share. Accordingly, in many cases, users are able to draw more than a sustainable yield. The Department of Water Resources has declared that the groundwater basin underlying Eastern San Joaquin County is overdrafted and groundwater levels in the County and the City are generally decreasing. Studies have determined the safe groundwater yield for the area underlying the City is approximately 15,000 acre feet per year. Annual water production for the four year period from 2006 through 2009 was approximately 16,305 acre feet, 17,132 acre feet, 17,164 acre feet and 16,052 acre feet per year, respectively.

The current water usage within the City is approximately 15.3 million gallons per day or 17,140 acre feet per year. In 2004 through 2006, the City approved several large annexations that are expected to increase the water demand, when developed, to 17.7 million gallons per day or 19,780 acre feet per year. The majority of these projects are delayed due to current market conditions.

As a result, there can be no assurances that the amount of groundwater historically utilized by the City will continue to be available in the future. In order to address this, as described in "THE TREATMENT FACILITY," the City purchased surface water rights of approximately 6,000 acre feet annually, and is constructing the Treatment Facility. Once operational, the Treatment Facility will result in the addition of 6,000 acre feet annually to the City's supply, resulting in an immediate reduction in groundwater pumping to slightly over 11,000 acre feet annually. See "THE TREATMENT FACILITY." Once operations at the Treatment Plant commence, the City may elect to abandon certain existing wells and/or delay construction of new wells.

The City operates 27 groundwater production wells (with an additional well under construction). The 27 operating wells that currently provide water to the City have a combined capacity of approximately 37,000 gallons per minute or 52.9 million gallons per day. The wells operate automatically on water pressure demand and pump directly into the distribution system. Six wells are equipped with granular activated carbon for the removal of dibromochloropropane. See “Certain Environmental Conditions” for a discussion of certain environmental issues relating to groundwater in the City. These six wells represent less than four percent of the City’s combined well capacity.

Storage. The Water System contains two separate storage facilities. A 100,000 gallon elevated tank located on North Main Street in the City modulates pressures with the distribution system. A one million gallon storage tank and pressure boosting pump station located east of State Route 99 on Thurman Street in the City serve peak demands in the City’s industrial areas.

Service Area and Customers

The City provides water to substantially all of the population of the City, representing an area of approximately 11.5 square miles. The City provides water service to a small subdivision outside the City within the County of San Joaquin which is the customer. There are a total of 21 residential units served via this agreement with the County of San Joaquin. The table below shows the number of accounts in the Water System by user type and service charge revenues by class of user. Residential users represent approximately 94% of all accounts and approximately 81% of water sales revenues.

Table 2
City of Lodi
Water System
Number of Accounts and Revenues by User Type

<u>Year Ending December 31</u>	<u>Commercial/Industrial/ Municipal</u>		<u>Residential</u>	
	<u>Number of Accounts</u>	<u>Revenue</u>	<u>Number of Accounts</u>	<u>Revenue</u>
		\$1,597,96		
2005	1,442	9	21,539	\$6,299,367
2006	1,435	1,806,309	21,588	7,668,308
2007	1,445	2,043,731	21,533	8,715,928
2008	1,470	2,184,496	21,449	9,429,594
2009	1,382	2,188,486	21,577	9,600,129

Source: City of Lodi.

The City has experienced an average population growth rate of 1% per year over the past twenty years, with commensurate increases in the number of customers. However, since 2006, the number of accounts has declined. In 2011 the City expects that two large “big box” retailers will open representing a demand of approximately 50 equivalent single family dwelling units (“EDUs”). Little additional growth is anticipated in 2011. In the projected operating results contained herein in Table _ (the “Projected Operating Results”), for Fiscal Years 2010-11 years and beyond, a growth rate of approximately 50 EDUs per year (or approximately 0.2%) is assumed.

The table below shows the 10 largest users of the Water System based on service charge revenues for the Fiscal Year 2008-09 (unaudited).

Table 3
City of Lodi
Water System
Largest Users by Service Charge Revenues
Fiscal Year 2009-10

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
Lodi Unified School District	K-12; Adult Education	\$228,766	1.94
City of Lodi	Government	209,678	1.78
Pacific Coast Producers	Private Label Fruit Canning	119,109	1.01
General Mills	Cereals, Bread Mixes, Snack Foods	82,088	0.70
Cottage Bakery	Specialty Bakery	51,865	0.44
Lodi Memorial Hospital	Health Care	36,518	0.31
Blue Shield of California	Health Insurance	19,988	0.17
Miller Packing Company	Hot Dog Producer	15,668	0.13
Temple Baptist Church	Church	15,129	0.13
Caltrans District 10	Government	14,449	0.12
Subtotal Top Ten Users		<u>793,258</u>	<u>6.73</u>
Total System		11,788,615	100.00%

Source: City of Lodi.

Rate Consultant's Report

The City retained The Reed Group, Inc. (the "Rate Consultant") in 2008 to assist in developing financial plans and utility rates for the Water System and the City's wastewater system. The Rate Consultant has prepared a report dated October __, 2010 titled "Water System Financial Strategy" attached hereto as Appendix B (the "Rate Consultant's Report") which summarizes the financial strategy supporting the activities of the Water System. Much of the information concerning the rates for the Water System, and the Projected Operating Results, have been excerpted from the Rate Consultant's Report.

The Rate Consultant's Report included as Appendix A to this Official Statement contains certain assumptions and forecasts. The Rate Consultant's Report should be read in its entirety for a discussion of historical and forecast results of the Water System and the assumptions and rationale underlying the forecasts. As noted in the Rate Consultant's Report, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Net Revenues may be materially less than expected and consequently, the ability of the City to make timely payment of the 2010 Installment Sale Payments may be materially adversely affected.

Water Rates and Charges

Subject to the requirements of Propositions 218, the City has the power to establish rates and charges as needed to operate the Water System. The rates and charges are established by the City Council and are not subject to review or approval by any other agency. The City has a history of proactive rate increases to meet the needs of the water enterprises. Adopted rates have recently included an annual review for inflationary indexing, as well.

Most recently, pursuant to Resolution No.2010-123 adopted on July 21, 2010, the City Council set usage-based and flat water rates for residential, commercial and industrial customers. Pursuant to the Resolution, the City Council:

- Changed the date for implementing the annual rate adjustments to January 1 of each of the 5 year maximum time frame allowed by Proposition 218 following January 1, 2011.
- Changed the water rate adjustment index from the Consumer Price Index (CPI) to the Engineering News Record (**ENR**) effective January 1, 2012 as this index better reflects the combined inflationary effects of personnel, materials and energy costs on the total operations of the Water System.
- Adopted usage-based and flat water rates for residential customers effective January 1, 2011. Add a 2% inflationary increase to the flat rates, base rates and each tier.
- Changed the multi-family and nonresidential usage-based rate structure for meter sizes 1 inch and smaller to establish parity with the residential customers.

The Proposition 218 process was followed and notifications were sent to property owners and utility customers 45 days prior to the public hearing on July 21, 2010. At the public hearing the total number of protests filed with the City Clerk represented less than 1% required to sustain the protest. The rate changes were adopted by the City Council.

Set forth below is a table showing selected rates effective January 1, 2011.

Table 4
City of Lodi
Water System
Selected Rates Effective January 1, 2011

Percent Increase	Current⁽¹⁾	Jan. 2011⁽²⁾
Flat Rates (\$/month)		2%
Single Family Residential Unit (\$/month)		
2 Bedroom	\$33.61	\$34.28
3 Bedroom	\$40.28	\$41.09
Metered Water Rates		
Service Charge (\$/month)		
<i>Single Family Residential⁽³⁾</i>		
Up to 3/4" Meter	\$22.25	\$22.70
<i>Multi-Family and Non-Residential⁽⁴⁾</i>		
1" Meter	\$42.27	\$36.85
1 1/2" Meter	\$56.35	\$57.50
2" Meter	\$70.45	\$71.85
Water Usage Rates (\$/CCF)		
<i>Single Family Residential⁽³⁾</i>		
Tier 1 – 0 to 10 CCF/month	\$0.86	\$0.88
Tier 2 – 11 to 50 CCF/month	\$1.29	\$1.32
Tier 3 – Over 50 CCF/month	\$1.71	\$1.74
<i>Multi-Family and Non-Residential⁽³⁾</i>		
All Water Usage	\$0.789	\$0.88

(1) Revised July 1, 2008.

(2) Approved by Council on July 21, 2010.

(3) Current residential metered rates are revenue neutral and were approved for comparative billing purposes only; metered rates will go into effect on January 1, 2011 for a portion of the City's customer base.

- (4) Proposed multi-family and non-residential rates improve equity with single family water rates.

A history of water rate increases since 2002 is presented in the following table.

Table 5
City of Lodi
Water System
History of Monthly Flat Rates and Rate Increases Since 2002
Three-Bedroom Home

<u>Year</u>	<u>Percentage</u>	<u>Rate</u>
January 2002	25.0%	\$15.56
July 2002	25.0%	19.45
May 2004	35.0%	26.26
May 2005	2.2%	26.83
January 2006	13.0%	30.33
July 2006	13.3%	34.35
July 2007	12.9%	38.79
July 2008	3.8%	40.28
January 2011	2.0%	41.09

The Projected Operating Results assume that water rates will be adjusted for inflation each January beginning in 2012, by the annual change in the **ENR** index which has averaged 3.5% over the past ten years.

Transition to Usage-Based Water Rates for Single Family Customers. As described in the Rate Consultant's Report, in 2005, the State of California adopted legislation requiring that all new residential water services installed since 1992 begin receiving metered water bills beginning in 2011. In Lodi this affects 2,882 residential customers. The same legislation requires that all water utility customers have meters installed and begin receiving metered water bills no later than 2026. The Lodi City Council adopted a Water Meter Program policy in 2009 stating that all unmetered residential customers will receive a water meter and begin receiving metered water bill by 2017.

The City will begin transitioning single family residential customers with water meters from flat water rates to water-usage based water rates in January 2011. At that time, approximately 3,000 of 16,400 single family customers will be converted to usage-based rates. It is estimated that all single family residential customers will be transitioned to usage-based water rates by January 2017 as the installation of water meters continues. Prior to converting any customer to usage-based rates, the City will provide the customer with actual water usage data and information regarding how the customer's bills may be affected with the change in billing.

The new usage-based water rate structure for single family customers includes a fixed service charge based on the size of the water meter, and a three-tier usage rate structure intended to help encourage water conservation. Initially, approximately 50% of the single family residential usage-based water rate revenues are anticipated to be generated from fixed service charges are 50% from usage charges.

The calculation of usage-based single family water rates was developed with water usage data from approximately 850 metered accounts with usage histories in excess of 12 months. The City plans to closely monitor actual water usage and water rate revenues as customers begin being billed on usage-based rates. No assurances can be made, however, that actual water rate revenues

will be as projected. The City Council has the authority to change the water rates and rate structures, if needed, to ensure revenue adequacy. The City's transition strategy to usage-based billing for residential customers is similar to other communities within California that are impacted by similar statutory requirements.

The usage-based rates were calculated to be revenue neutral with existing residential flat water rates. This calculation assumes that residential water usage would decrease by **10%** as a result of conservation activities by customers charged for usage. Because the transition to usage-based billing will occur over approximately seven years, the potential revenue uncertainty will be limited to a small percentage of the revenue base. As the City gains experience in monitoring customers' water usage characteristics under usage-based billing it will be able to refine revenue estimates based on accumulated knowledge.

The City will also be changing the manner in which single family residential customers will be billed for wastewater services. Single family residential wastewater rates will be determined based on each customer's winter water usage (period when irrigation demand is minimal). Usage-based wastewater rates have not yet been adopted by the City and are not anticipated to be implemented until January **2012**. Usage-based wastewater rates may also have an impact on customer's water demand.

As described herein in "Historical and Projected Operating Results," the City intends to charge customers for the cost of the acquisition and installation of the new meters.

Billing and Collection. The City bills monthly for water, wastewater, solid waste and electricity on the same bill. If a bill is unpaid, the City will terminate electric service to a customer within 55 days of nonpayment after **48** hours notice. For financial reporting, the City records an allowance for bad debt equal to 2 percent of receivables over **60** days old. Closed accounts with outstanding balances are referred to a collection agency on a quarterly basis. The Water System component of accounts recently referred to collection since October **2007** are:

<u>Fiscal Year</u>	<u>2007/08*</u>	<u>2008/09</u>	<u>2009/10</u>
Amount	\$92,673	\$125,505	\$106,148
% of Sales Charge Revenue	1.1%	1.4%	1.2%

* 9 Months

Source: City of Lodi

Comparison of Monthly Water and Wastewater Service Charges of Selected Agencies. A comparison of water and wastewater service charges of selected agencies located in San Joaquin County for an average three bedroom single-family home is set forth below.

Table 6
Comparison of Monthly Water and Wastewater Service Charges
(as of June 30,2010)

<u>Agency</u>	<u>Water*</u>	<u>Wastewater**</u>	<u>Total</u>
City of Galt (Flat Rate per month)	\$22.31	\$53.24	\$75.55
City of Manteca	41.70	43.30	85.00
City of Tracy	32.60	31.00	63.60
City of Lodi (usage based)**	43.75	38.84	82.59
City of Lodi (flat rates)**	40.28	38.84	79.12
City of Stockton	38.05	24.85	62.90

*Based on 20 units

**Wastewaterrate based on a 3 bedroom single family home

Source: City of Lodi.

Impact Fees. In addition to collecting service charges, the City also collects water impact mitigation fees, or “impact fees.” Impact fees are one time fees charged to new development for capacity in the water system. Impact fees for a typical low density single family residence (5 dwelling units per acre) is approximately \$1,078.

As a result of the housing slump and general economic conditions, new development in the City has declined significantly in the last few years. Due to a sharp drop in development activity, total impact fee revenue was approximately \$13,000 in Fiscal Year 2008-09 and less than \$2000 in 2009-10.

The City expects that it will increase the per connection impact fee to reflect the cost of the Treatment Plant, as well as other improvements to the Water System, in 2011. Preliminary estimates indicate that the new impact fee will be approximately \$8,000 per EDU, with annual inflation indexing thereafter. The Projected Operating Results include estimated impact fees of approximately \$271,000 in Fiscal Year 2010-11 (attributable solely to two large retail operations which the City expects will pay impact fees) and approximately \$410,000 in Fiscal Year 2011-12. Customer growth is expected to be 0.2% (or approximately 50 new connections) annually.

Actual impact fee revenues will depend on a variety of factors, including the actual increases in impact fees adopted by the City Council and the actual number of new connections for which impact fees are paid. The housing slump may continue for a prolonged period, with the result that there are significantly less new connections in the City than contemplated in the Projected Operating Results. In addition, there can be no assurances that the City Council will adopt impact fees at the level assumed in the Projected Operating Results, and that new connections for which impact fees are paid will occur at the levels assumed in the Projected Operating Results.

Capital Improvement Plan

The capital improvement program for the Water System consists primarily of (i) the Treatment Facility (with an estimated cost of approximately \$36.5 million) and (ii) the water meter retrofit program (with an estimated cost of approximately \$42.5 million). The water meter retrofit program includes the installation of water meters and includes the replacement of small diameter, aged, and/or backyard water mains, as required.

The costs of the Treatment Facility are expected to be funded from the proceeds of the Series 2010 Bonds.

The costs of the meter retrofit program (to be incurred through Fiscal Year 2015-16) are expected to be funded from (i) charges expected to be imposed on customers for the water meters (approximately \$13 million); (ii) available reserves of approximately \$14 million; and (iii) available revenues of the Water System (approximately \$15 million). As described herein in “Historical and Projected Operating Results,” the City has not yet adopted the charges expected to be imposed on customers for the water meters. There can be no assurances that the City Council will adopt the charges in the amounts contemplated in the Projected Operating Results.

The Capital Improvement Program also includes additional capital projects, consisting mainly of pipe replacement, which are also expected to be funded from available revenues of the Water System.

The City believes that the replacement of old facilities will provide a long term reduction in utility capital maintenance costs. It also improves the fire protection and pressure conditions in those areas served by undersized pipes.

As described below, the City also expects to undertake remediation and other activities relating to certain environmental conditions. The costs of those activities are expected to be paid from existing settlement proceeds and reserves.

Environmental Regulation and Compliance

The City of Lodi Water System is subject to a variety of federal and state drinking water regulations established by the United States Environmental Protection Agency (“USEPA”) and the California Department of Public Health (CDPH). Many of the drinking water regulations are applicable to both the existing groundwater supplies and the proposed surface water supply. Lodi’s Annual Water Quality Report present a summary of water system facilities, supply, operations and water quality.

CDPH is the primary agency responsible for enforcement of the federal and state drinking water regulations. CDPH performs field inspections, issues operating permits, reviews plans and specifications for proposed facilities, enforces compliance with laws and regulations, monitors water quality reports, and promotes water system security. CDPH also collaborates with other agencies including USEPA, State Water Resources Control Board, and the San Joaquin County Health Department.

Certain Environmental Conditions

Following are discussions of certain environmental conditions which currently are, and may in the future, affect the operations and/or financial condition of the Water System.

PCE/TCE Contamination. As described herein, the City currently relies upon groundwater for providing potable water to its residents through the City’s water enterprise. The City detected the chemicals tetrachloroethylene (“PCE” or “PERC”) and trichloroethylene (“TCE”) in the groundwater in 1989. The contamination was caused by releases into five different contamination plumes over many decades by businesses in the City. The City filed, and has now fully resolved, a cost recovery action entitled “The People of the State of California and the City of Lodi v. M&P Investments, et. al U.S. District Court for the Eastern District of California, Case No. Civs-00-2441 FCD JFM.”

Active remediation is not required in order to protect the City's groundwater supply. First, the five plumes run along three narrow contours following the flow of groundwater. With minor exceptions, because the plumes containing the contaminants follow the southerly groundwater flow, the City believes that **22** of the City's total **27** wells that are east and west of the plumes are not threatened. The City has numerous wells that pump water from wells outside the plumes' contours. More importantly, the water supply can be completely protected by either closing the well or installing wellhead treatment to remove the contaminants at the time the water is ready to be introduced into the Water System. Active remediation is only required as a result of **1**) the various settlements the City has entered into; and **2**) the oversight of the Central Valley Regional Water Quality Control Board ("Board"). Because the settlements require cleanup to the Board's satisfaction, the Board is ultimately the only source of authority mandating active remediation.

The two most common treatment methods for PCE and TCE are Ground Water Extraction and Filtration ("GWETS") and Soil Vapor Extraction and Filtration ("SVE"). In both cases, wells are installed to suck water (in the case of GWETS) and air (in the case of SVE) into a carbon filter system that filters the contaminants out of the water and air. SVE was first installed in the largest plume in **2004** and has removed approximately **16,000** pounds of PCE. The City is currently installing a more robust SVE and GWETS system in the central plume designed to remove PCE which the existing system may have missed. The City believes that the wellhead data for the new wells suggests that the first SVE system may have already removed the majority of the PCE. Funding for these cleanup efforts was secured through settlements as well as available Net Revenues of the Water System.

Although the contamination is a serious issue, the City believes that it can manage its water supply to avoid adverse consequences to the Water System. The City has numerous wells that pump water from far outside the areas which are affected. Settlements in the litigation and rate increases, as discussed below, have provided a steady funding source to manage and treat the threat. In addition, construction of the Treatment Facility will reduce the City's reliance on groundwater, increasing the ability of the City to avoid problematic groundwater areas.

The settlement with respect to one of the plumes (the "Busy Bee" plume) fully funded a contract with a remediation company which is expected to fully remediate the site of the Busy Bee plume. The City also settled with or dismissed all potentially responsible parties in the remaining four plumes and settled with its own insurance carriers, raising **\$35.3** million through the settlements toward the cleanup cost.

To finance the costs of the litigation, the City and the Lodi Public Improvement Corporation entered into a financing arrangement with Lehman Brothers Inc. ("Lehman") in June **2000** (the "**2000** COPs"). Lehman advanced **\$15,625,000**, which was repayable with interest. In **2004**, litigation arose between Lehman and the City over the City's obligations under the **2000** COPs. The matter settled in **2005** with the City paying Lehman **\$6** million to fully discharge its obligations under the **2000** COPs.

In addition to the proceeds of litigation settlements, the City Council implemented significant increases in Water System rates beginning in January of **2006** to provide additional funds to meet the City's unfunded potential liability. These water rate increases were unsuccessfully challenged by citizen initiative in November **2006** by a vote of **63.9%** to **36.1%**. Subsequent to the adoption of these rate increases, the City Council approved inflationary adjustments in each year from **2006** through **2010**.

The City's audited financial statements for the year ended June **30, 2009** state that the City's remaining pollution remediation obligation was approximately **\$70** million as of June **30, 2009**. See

See APPENDIX D – “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2009” – Note ___ to the Basic Financial Statements” for a discussion of the City’s remediation liabilities. However, that amount was based on estimates of remediation costs prepared in 20__ in connection with the litigation concerning the environmental conditions. Based on remediation progress and costs to date, as well as communications with the Board, the City currently believes that all remaining remediation costs through Fiscal Year 2019-20 can be paid from remaining settlement proceeds and other restricted funds of the City. (The current amount of such remaining settlement proceeds and other restricted funds is approximately \$18 million.) Therefore, the Projected Operating Results assume that no additional Net Revenues of the Water System will be required to pay remediation costs. The following table shows sources and uses of funds relating to the cleanup activities.

TABLE 7
SOURCES AND USE RELATING TO ENVIRONMENTAL CLEANUP

<u>Item</u>	<u>Amount (in millions)</u>
Estimated Remaining Cleanup Costs ⁽¹⁾	\$41.20
Available Funds:	
Settlements Proceeds	\$14.64
Rate Revenue	<u>3.40</u>
Total Available Funds	\$18.04
Unfunded Potential City Exposure to be funded from Water Rate Revenue	<u>\$23.16</u>

(1) Includes a \$9 million contingency.

As described above, the City believes that remaining settlement proceeds and existing reserves will be sufficient to pay remediation costs through Fiscal Year 2019-20, and that available revenues will not be required to pay such costs through such period. However, there can be no assurances that the actual costs of remediation will not exceed the City’s current estimates. See **“RISK FACTORS – Remediation Costs.”**

DBCP Contamination. The City’s groundwater is impacted by remnants of a former agricultural pesticide known as DBCP (1,2-dibromo-3-chloropropane). DBCP is a listed carcinogen that can be removed from water through carbon filtration. DBCP was used as a fumigant to treat infestations in vineyards. As the City has grown, it has annexed former vineyard sites. Although DBCP can be found in 6 of the 27 wells (representing less than four percent (4%) of the City’s pumping capacity) inside the older portion of the City, it primarily is found in the City’s newer vineyard annexations to the south and west. The City has no connection to or liability for the contamination except its obligation to purify the water to the extent it chooses to introduce it into its drinking water supply.

The City settled a lawsuit against the manufacturers of DBCP including Dow, Shell and Occidental in 1996 that requires the defendants to fund the City’s well replacement and treatment costs through the year 2036. Although the reimbursement terms are complex, the amounts paid to date by the defendants have significantly exceeded the City’s actual costs. The settlement agreement allows reimbursements to exceed costs because reimbursements are, in most cases, set at ninety percent (90%) of projected treatment costs and actual treatment costs have been below the settlement

agreement projections. Staff anticipates that this trend will continue throughout the settlement agreement's term. Settlement payments exceeded treatment and legal costs by approximately \$130,000 in Fiscal Year 2009-10, approximately \$71,000 in 2008-09, and approximately \$48,000 in 2007-08. The City does not anticipate that it will need to utilize Net Revenues of the Water System to fund treatment costs in the future because continued effective resource management are expected to keep costs below settlement revenues.

As required by state law, the City monitors various contaminant levels including DBCP, at the wellhead on a regular basis. DBPC is treated in exactly the same manner as PCE and TCE. Groundwater that tests above the DBCP drinking water standard is pumped through a carbon filter at the wellhead that removes the DBCP. The City manages the Water System resources, selectively turning wells on and off to insure that the carbon filters achieve their maximum life. The Treatment Facility funded through this financing will increase the City's ability to achieve cost savings through additional resource management.

Financial Statements

The audited General Purpose Financial Statements of the City as of June 30, 2009 are included in Appendix D to this Official Statement. The 2010 Installment Payments are special obligations of the City payable solely from the Water System Net Revenues. The General Purpose Financial Statements have been audited by Macias, Gini & Company LLP, Sacramento, California, independent accountants (the "Independent Accountants") as stated in their report appearing in Appendix D.

No review or investigation with respect to subsequent events has been undertaken in connection with such General Purpose Financial Statements by the Independent Accountants and the Independent Accountants have not been asked to consent to the City regarding inclusion of the General Purpose Financial Statements in this Official Statement.

Historical and Projected Operating Results

The following table sets forth historical and projected revenues, expenses and debt service coverage of the Water System. The historical information is based on the City's audited financial statements for fiscal years 2004-05 through 2008-09 and unaudited results for fiscal year 2009-10. The Projected Operating Results were prepared by the City, and are based in part on the Water System Financial Strategy Report described below. The coverage ratios have been computed in accordance with the requirements of the Installment Purchase Agreement, including the definitions of System Net Revenues and Operation and Maintenance Costs (although such requirements and definitions were not applicable prior to the issuance of the Series 2010 Bonds).

Development of Projected Operating Results and Debt Service Coverage. The City's estimated projected operating results for the Water System for the Fiscal Years ending June 30, 2011 through 2015 are set forth below, and reflect certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

In connection with the development of the financial plan for the funding of the Treatment Plant and the development of the metered rates, the City engaged The Reed Group, Inc (the "Rate

Consultant”). The Rate Consultant issued a Water System Financial Strategy Summary Report, dated August 18, 2010 (the “Water System Financial Strategy Report”), which included an analysis of Water System rates and a variety of assumptions

Major assumptions affecting the Projected Operating Results include the following:

Water Sales Revenue. Estimated future water sales revenue have been estimated based on consideration of the following factors:

- Recently adopted water rates, as well as assumed annual inflationary adjustments of 3.5% per year beginning January 1, 2012 (see “- Water Rates and Charges”)
- Planned transition of single family residential customers from flat rate billing to water usage-based billing (see “- Water Rates and Charges - Transition to Usage-Based Water Rates for Single Family Customers”);
- Increases of 0.2% per year in the number of customer connections;
- No increase in water demand as a result of economic recovery

Water Impact Mitigation Fees. The current water impact mitigation fee is approximately \$1,078 for a single family residential connection. As described herein in “- Water Rates and Charges,” the Projected Operating Results assume that the water impact fees will be increased to \$8,000 during Fiscal Year 2010-11, and that there will be approximately 50 new connections for which impact fees are paid annually (representing annual growth of approximately 0.2%).

The Projected Operating Results assume that approximately \$271,000 in impact fees will be received in Fiscal Year 2010-11, which are solely attributable to two large commercial projects which are anticipated to move forward and pay impact fees.

Meter Retrofit Installation Charges. In order to provide additional funding for the planned accelerated water meter retrofit program, the City is considering imposing a meter retrofit installation charge on all customers requiring water meters. Lump sum charges varying between \$300 and \$1,200 have been proposed by City staff. Under the proposal, customers would have the option of paying the charge in a lump sum, or paying in monthly installments, in a charge on the utility bill, over seven years at an estimated interest rate of 2%. Lump sum payments would be due by July 1, 2011, and monthly charges would be imposed beginning in July 2011 on all customers who require, and have not yet paid for, meters regardless of installation date. This meter retrofit installation charge is expected to be considered by the City Council in early 2011. There can be no assurances that the City Council will adopt the proposal of City staff

The Projected Operating Results reflect both the revenues from the anticipated meter retrofit installation charges (including estimates of lump sum payments and monthly installment payments), and the costs of the meter retrofit program. Because a portion of the meter retrofit program entails replacing existing undersized and/or back yard mains, a portion of the program is also funded through existing water rate revenues and available reserves. See “Capital Improvement Program.”

PCE/TCE Monitoring and Remediation Costs. The Projected Operating Results do not reflect the anticipated capital and operations and maintenance costs associated with monitoring and remediation of groundwater for PCE/TCE. As of June 30, 2010, the City has about \$18 million in restricted reserves intended for PCE/TCE purposes and these reserves are believed to be sufficient

for program costs through at least 2020. See “- Certain Environmental Conditions.” There can be no assurances that actual costs of remediation will not exceed current reserves therefor.

The following table also sets forth debt service coverage ratios with respect to the Series 2010 Bonds. Such coverage ratios have been computed in accordance with the requirements of the Installment Purchase Agreement

Table 8
City of Lodi
Water System
Historical and Projected Operating Results and Debt Service Coverage
Fiscal Years 2005-06 through 2014-15
[TO COME]

THE TREATMENT FACILITY

The following information is excerpted from the Consulting Engineer's Report attached to this Official Statement as Appendix A. The Consulting Engineer's Report should be read in its entirety.

The Treatment Facility is designed to pump up to 11.5 million gallons per day (mgd) of water from the Mokelumne River, treat this water and deliver it to the City's existing water distribution system. The Treatment Facility is expected to provide **8 mgd** of firm capacity (**10 mgd** peak capacity) of treated water that would meet or exceed state and federal drinking water standards.

Major components of the Treatment Facility include a raw water pump station and pipeline; operations building; chemical building; treatment works (sedimentation basin, autostrainers, feed pumps, and membranes); control systems and related facilities and equipment.

The Treatment Facility will treat raw water from the Mokelumne River, which the City will purchase from the Woodbridge Irrigation District ("WID"). The City entered into a contract in **2003** to purchase **6,000** acre feet annually of surface water. The initial contract term is **44** years with City ability to extend the term for an additional **44** years. The City believes that implementation of the Treatment Facility will, together with the City's groundwater resources, provide a highly reliable and flexible conjunctive use water supply for the next **80** years.

Due to the high quality of the Mokelumne River supply, the City's surface water treatment plant will utilize a microfiltration technology in its treatment process. Microfiltration is a proven technology that is cost effective, low maintenance, and supports a small footprint facility. The City acquired the treatment plant site adjacent to the WID point of supply over 50 years ago.

Features of the treatment plant include pretreatment for sediment removal and filter fouling protection, pumps to push the water through the microfiltration membrane fibers, finished water conditioning (if required) and chlorination. Ancillary facilities will be used to clean the filters in place and out of place.

Four major buildings will be constructed to house the treatment plant facilities. These include the operations building, chemical storage building, raw water pump station, and high service pump station. The initial plant construction is designed to treat **8** million gallons per day. All facilities are designed to accommodate for a future expansion of the treatment plant to **20** million gallons per day.

A three million gallon storage tank and booster pumping facility will discharge the treated water on demand into the large diameter transmission mains constructed along with the treatment plant. Existing water wells, of which there are **27**, will be modified to include chlorination facilities as required by applicable regulations.

California Environmental Quality Act review of the Treatment Facility consisted of preparation of an Initial Study/Mitigated Negative Declaration. The documents were certified by the City Council following the public hearing held on July **21, 2010**.

The City estimates that the total capital cost of the Treatment Facility will be approximately **\$36.5** million, consisting of approximately **\$27.5** million on site acquisition, construction costs, fees

and testing costs, approximately **\$4.4** million in equipment, **\$900,000** in engineering costs, and a contingency of approximately **\$3.7** million (or **10%**).

The bid process for the Treatment Facility began in May **2010** with the solicitation of pre-qualification applications from general contractors. Ten general contractors met the requirements and were provided bid documents on August **3, 2010**. The City received bids from nine firms on September **16, 2010**. Bid amount ranged from **\$22.8** million to **\$29.0** million. The City is evaluating the bids and expects to award the contract for construction of the treatment plant on October **20, 2010**. Construction is anticipated to begin January **2011** and require **18 – 24** months to complete.

The California Department of Public Health (“CDPH”) is a primary agency with responsibility for enforcement of the federal and state Safe Drinking Water Acts. The CDPH Drinking Water Program is part of the Division of Drinking Water and Environmental Management, and the Northern California Field Operations Branch of the Drinking Water Program oversees the City’s water system. The CDPH performs field inspections, issues operating permits, reviews plans and specifications for proposed facilities, enforces compliance with laws and regulations, monitors water quality, and promotes water system security. The delivery of treated surface water into the City water system will require additional water quality monitoring and data reporting and compliance with additional drinking water regulations. The Treatment Facility has been designed with the intent of meeting or exceeding existing state and federal drinking water standards, and will provide treatment for virus, bacteria, and protozoa organisms such as giardia and cryptosporidium. The Projected Operating Results include estimated costs of compliance with the requirements of CDPH.

The Consulting Engineer’s Report also addresses projected operating and maintenance cost for the Treatment Facility. Operations and maintenance requirements will change over the first several years as the facility is brought on line and moves through the plant’s lifecycle periods referred to as; commissioning, post commissioning, normalization and optimization. The commissioning period is the initial plant startup and is primarily the responsibility of the contractor. The post commissioning period is the most labor intensive period as the plant is operated **24** hours per day, **7** days a week, for approximately **8** months to ensure adequate water quality under varying conditions. The normalization period of approximately **6** months is focused upon standardizing operation and maintenance procedures and preparing for unattended operation of the plant. The Consulting Engineer estimates that **9** additional personnel will be required for the commissioning and normalization period. The optimization period is the final period and devoted to fine tuning and optimizing treatment plant performance. The Consulting Engineer anticipates that **4** to **5** personnel should be able to properly operate and maintain the facility, with support from external resources, once the facility reaches its optimized operation. The City has taken the costs of these personnel into account in developing the Projected Operating Results.

CONTINUING DISCLOSURE

The City will covenant pursuant to a Continuing Disclosure Certificate to provide certain financial information and operating data relating to the City and the Water System by not later than seven months following the end of the City’s Fiscal Year, which Fiscal Year presently ends June **30** (the “Annual Report”), commencing with the Annual Report for fiscal year **2009-10**, and to provide notices of the occurrence of certain enumerated events, if material, under federal securities law.

The specific nature of the information to be contained in the Annual Report and the notices of material events are set forth in “APPENDIX G – PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE”. These covenants have been made to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”).

As of the date hereof, the City has not failed to comply in the last five years in any material respect with any previous undertakings with regard to the provision of annual reports or material events notices as required by the Rule.

THE AUTHORITY

The Authority was created in July of 2010 by a joint exercise of powers agreement, which was entered into between the City and Industrial Development Authority of the City of Lodi (“IDA”) pursuant to the provisions of the Act. Under the Joint Exercise of Powers Agreement, the Authority is a public entity, separate from the City and the IDA. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of the City or the IDA. The Authority is administered by a governing board consisting of the members of the Lodi City Council.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Following is a description of certain significant limitations on the ability of the city to raise taxes, and to impose rates, fee and charges, including charges for service provided by the Water System.

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The City is of the opinion that the water service and user charges imposed by the City do not exceed the costs the City reasonably

bears in providing the water service. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIII C and XIII D

General. On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

Specifically, under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIII D, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIII C states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases (such as *Apartment Association v. City of Los Angeles* (2001) 24 Cal. 4th 830) and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. **Rptr.** 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition **218**. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition **218** and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June **15, 2005**.

In July **2006** the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, **July 24, 2006**), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Proposition 218 and the City's Water System Rates. The City followed the procedural requirements, including the public hearing and majority protest provisions, of Proposition **218** in connection with its most recent Water System rate increases (which included approval for annual **ENR** increases through **2016**). See "THE WATER SYSTEM - Water Rates and Charges". The City believes that its current water charges which are collected to pay the costs of Water System operation and maintenance and debt service comply in all respects with the requirements of Article XIID and the City expects that any future water charges will comply with Article XIID's procedural and substantive requirements to the extent applicable thereto.

Conclusion. It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness. After the City Council adopted increased water rates on September 21, 2005 to pay for the cleanup of PCE and TCE in the City's groundwater (as described herein in "THE WATER SYSTEM – Certain Environmental Conditions), an initiative was placed on the November 7, 2006 ballot to repeal the increased rates. The resolution failed, with 63.9% of the voters rejecting the proposed rate reduction and 36.1% of voters supporting it.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2010 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Series 2010 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The Series 2010 Bonds are payable only from Installment Payments received from the City, and the 2010 Installment Payments are secured by and payable solely from System Net Revenues; the 2010 Installment Payments are not secured by a legal or equitable pledge or charge or lien upon any property of the City or the Corporation or any of their income or receipts, except the Water System Net Revenues.

The obligation of the City to make the 2010 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Rate Covenant Not a Guarantee; Failure to Meet Projections

The ability of the Authority to pay the principal of and interest on the Series 2010 Bonds depends on the ability of the City to generate Net Revenues in the levels required by the 2010

Installment Sale Agreement. Although, as more particularly described herein, the City expects that sufficient revenues will be generated through the imposition and collection of the service charges, impact fees and other revenues described herein, there is no assurance that such imposition of service charges, impact fees and other revenues will result in the generation of Net Revenues in the amounts required by the 2010 Installment Sale Agreement. As a result, the Rate Covenant set forth in the 2010 Installment Sale Agreement does not constitute a guarantee that sufficient Net Revenues will be available to make debt service payments on the Series 2010 Bonds.

In addition, the financial forecasts contained herein are based on a number of assumptions. Changes in circumstances could have a material adverse impact on the ability of the City to pay the 2010 Installment Payments.

Parity Obligations

The City is permitted under the Installment Purchase Agreement, subject to satisfaction of certain conditions, to incur additional Parity Debt. In the event System Net Revenues were insufficient to pay all of the City's obligations with respect to the Parity Debt, when due, the City would be obligated to make payments on the Parity Debt and 2010 Installment Payments on a pro rata basis.

Increased Operation and Maintenance Costs; Costs Relating to Treatment Plant

There can be no assurance that the Operation and Maintenance Costs of the City with respect to the Water System will be consistent with the levels contemplated in this Official Statement. As described herein, the City and Consulting Engineer have prepared estimates of the costs of operating and maintaining the Treatment Facility once it is constructed. However, there can be no assurances that the actual costs of operating and maintaining the Treatment Facility will not exceed such estimates. In addition, changes in technology, unforeseen litigation, costs related to environmental matters (see "THE WATER SYSTEM – Certain Environmental Conditions"), increases in the cost of operation or other expenses could require increases in rates or charges in order to comply with the City's rate covenant, and could increase the possibility of nonpayment of the 2010 Installment Payments. See "THE WATER SYSTEM".

Factors Affecting Capital Improvement Program

As described herein, the City is undertaking a significant capital improvement program with respect to the Water System, including the construction of the Treatment Facility. The City has entered into and will enter into agreements for the construction of such capital improvements. See "THE TREATMENT FACILITY." The City anticipates that such contracts will be subject to adjustment for a variety of circumstances, including higher than anticipated costs of labor and materials or subcontractor bids, changes in scope, unforeseen site conditions and force majeure events. The estimated costs of, and the projected schedule for, the capital improvement program are subject to a number of uncertainties. The ability of the City to complete the capital improvement program may be adversely affected by various factors including: (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, including changes to federal security regulations, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions and other force majeure events, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation and (11) environmental issues. No assurance

can be made that the existing projects in the capital improvement program, including the Treatment Facility, will not cost more than the current budget for these projects. There can be no assurances that significant increases in costs over the amounts projected by the City will not materially adversely affect the financial condition or operations of the Water System.

Impact Fees

The Projected Operating Results assume the receipt of impact fees in amounts significantly higher than the amounts received by the City in the last several fiscal years. Actual impact fee revenues will depend on a variety of factors, including the actual increases in impact fees adopted by the City Council and the actual number of new connections for which impact fees are paid. There can be no assurances that the City Council will adopt impact fees at the level assumed in the Projected Operating Results, and that new connections for which impact fees are paid will occur at the levels assumed in the Projected Operating Results.

Consulting Engineer's Report and Rate Consultant's Report

The Consulting Engineer's Report included as Appendix A to this Official Statement and the Rate Consultant's Report contained as Appendix B to this Official Statement (together, the "Reports") contain certain assumptions and forecasts. The Reports should be read in their entirety for a discussion of the assumptions and rationale underlying the forecasts, projections, conclusions and opinions contained therein. The forecasts, projections, conclusions and opinions contained therein are subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projections contained in the Reports are not necessarily indicative of future performance, and neither the Consulting Engineer, the Rate Consultant nor the City assume any responsibility for any failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the City are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2010 Bonds are cautioned not to place undue reliance upon the Reports or upon any forecasts, projections, conclusions and opinions contained in the Reports. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Net Revenues may be materially less than expected and consequently, the ability of the City to make timely payment of the 2010 Installment Sale Payments may be materially adversely affected.

Neither the City's independent auditors, nor any other independent accountants have compiled, examined or performed any procedures with respect to the information in the Reports, including Net Revenues forecast, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the Reports.

Remediation Costs

As described herein in "THE WATER SYSTEM - Certain Environmental Conditions," pursuant to various litigation settlements and agreements with the Board, the City is required to

undertake remediation activities with respect to environmental contamination of groundwater in the City. The City believes that remaining settlement proceeds and existing reserves will be sufficient to pay remediation costs through Fiscal Year 2019-20, and that available revenues will not be required to pay such costs through such period. However, there can be no assurances that the actual costs of remediation will not significantly exceed the City's current estimates. If actual costs of remediation exceed the City's estimates, such circumstances could materially adversely affect the financial condition of the Water System.

Statutory and Regulatory Impact

Laws and regulations governing treatment and distribution of water are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations may be extremely costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase.

In addition, as described herein, the City is currently undertaking remediation activities to address certain environmental conditions affecting the Water System. Although the City believes that existing funds available for such remediation will be sufficient to pay the cost of such remediation, there can be no assurances that the cost of remediation will not exceed the City's projections.

The City could be subject to claims if it were to violate regulations with respect to its facilities and services. Such claims would be payable from assets of the Water System, the City or from other legally available sources. See "THE WATER SYSTEM – Environmental Compliance" herein.

Although the City has covenanted in the 2010 Installment Sale Agreement to establish and collect services charges and other fees at specified levels, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net Revenues in the amounts required by the 2010 Installment Sale Agreement and to pay the 2010 Installment Sale Payments.

Natural Calamities

From time to time, the service area of the Water System is subject to natural calamities, including earthquake and flood. A seismic event or a flood could cause property damage, which could adversely impact the availability of Net Revenues, whether as the result of reduced Revenues or increased Operation and Maintenance Costs, or both.

Limited Recourse on Default

Failure by the City to make the 2010 Installment Payments, when due, constitutes an event of default under the Installment Purchase Agreement and the Corporation is permitted to pursue remedies at law or in equity to enforce the City's obligation to make the 2010 Installment Payments. Although the Corporation has the right to accelerate the total unpaid principal component of the 2010 Installment Payments, there is no assurance that the City will have sufficient System Net Revenues to pay the principal component of the 2010 Installment Payments upon acceleration. See also

“CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – California Constitution Articles XIIC and XIID” above.

Effect of Bankruptcy

In addition to the limitations on remedies contained in the Installment Purchase Agreement and the Trust Agreement, the rights and remedies provided in the Installment Purchase Agreement and the Trust Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. In the event of the bankruptcy of the City, the obligations of the City under the Installment Purchase Agreement may be set aside.

Loss of Tax Exemption

The City has covenanted in the Installment Purchase Agreement that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest evidenced by the Series 2010 A Bonds under Section 103 of the Internal Revenue Code of 1986. In the event the City fails to comply with the foregoing tax covenant, interest evidenced by the Series 2010 A Bonds may be includable in the gross income of the Owners thereof for federal tax purposes. See “TAX MATTERS”.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2010 Bonds or, if a secondary market exists, that any Series 2010 Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price. No assurance can be given that the market price for the Series 2010 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Series 2010 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Series 2010 Bonds or obligations that present similar tax issues as the Series 2010 Bonds.

TAX MATTERS

Series 2010A Bonds

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”) that must be satisfied subsequent to the issuance of the Series 2010A Bonds in order that such interest be, or continue to be, excluded from gross income for federal

income tax purposes. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series **2010A** Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series **2010A** Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. If the initial offering price to the public (excluding bond houses and brokers) at which a Series **2010A** Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series **2010A** Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series **2010A** Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series **2010A** Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series **2010A** Bonds who purchase the Series **2010A** Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series **2010A** Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series **2010A** Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series **2010A** Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series **2010A** Bond (said term being the shorter of the Series **2010A** Bond’s maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series **2010A** Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series **2010A** Bond is amortized each year over the term to maturity of the Series **2010A** Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Series **2010A** Bond premium is not deductible for federal income tax purposes. Owners of premium Series **2010A** Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series **2010A** Bonds.

In the further opinion of Bond Counsel, interest on the Series **2010A** Bonds is exempt from California personal income taxes.

Owners of the Series **2010A** Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series **2010A** Bonds may have federal or state tax

consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series 2010A Bonds other than as expressly described above.

The form of the opinion of Bond Counsel relating to the Series 2010A Bonds is attached as Appendix H

Series 2010B Bonds

In the opinion of Bond Counsel, subject, however to the qualifications set forth below, under existing law, the Series 2010B Bonds constitute “Qualified Bonds” within the meaning of Section 54AA(g)(2) of the Tax Code and are eligible for the Refundable Credit payable by the federal government under Section 6431 of the Tax Code. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series 2010B Bonds in order for the Series 2010B Bonds to be treated as Qualified Bonds and continue to be eligible for the Refundable Credit. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the Series 2010B Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the Series 2010B Bonds.

Bond Counsel expresses no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Refundable Credit by the federal government, nor does Bond Counsel express any opinion regarding other federal tax consequences arising with respect to the Series 2010B Bonds.

Interest on the Series 2010B Bonds is not intended to be excluded from gross income for federal income tax purposes, and the holders of the Series 2010B Bonds will not be entitled to any tax credits as a result of their ownership of such Series 2010B Bonds.

In the opinion of Bond Counsel, interest on the Series 2010B Bonds is exempt from California personal income taxes.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, Bond Counsel informs owners of the Series 2010B Bonds that any U.S. federal tax advice contained in this Official Statement (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the Series 2010B Bonds. Each taxpayer should seek advice based on that taxpayer’s particular circumstances from an independent tax advisor.

The form of the opinion of Bond Counsel relating to the Series 2010B Bonds is attached as Appendix H.

LITIGATION

No Litigation Relating to Series 2010 Bonds. To the knowledge of the City, there is no controversy or litigation of any nature now pending or threatened restraining or enjoining the

execution and delivery of the Series **2010** Bonds, the Trust Agreement, the Installment Purchase Agreement or in any way contesting or affecting the validity of the Series **2010** Bonds or any proceedings of the City or the Authority taken with respect to the execution and delivery thereof.

APPROVAL OF LEGALITY

The execution and delivery of the Series **2010** Bonds is subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel to the City. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation and for the City and the Corporation by the City Attorney of the City.

Payment of the fees and expenses of Special Counsel and Underwriter's Counsel is contingent upon execution and delivery of the Series **2010** Bonds.

RATINGS

The Series **2010** Bonds have been assigned ratings of “__” and “__,” respectively, by Moody's and S&P. Certain information was supplied by the City to such rating agencies to be considered in evaluating the Series **2010** Bonds. The ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Moody's Investors Service, 7 World Trade Center, **250** Greenwich Street, New York, New York **10007** and Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or any of them, if, in their respective judgment, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series **2010** Bonds.

FINANCIAL ADVISOR

Lamont Financial Services Corp. (the “Financial Advisor”) has assisted the City with various matters relating to the planning, structuring and delivery of the Series **2010** Bonds. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the Series **2010** Bonds.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Series **2010** Bonds at a price of \$_____, representing the aggregate principal amount of the Series **2010** Bonds plus \$_____ net original issue premium and less \$_____ Underwriter's discount.

The Purchase Contract for the Series **2010** Bonds provides that the Underwriter will purchase all the Series **2010** Bonds, if any are purchased. The Series **2010** Bonds may be offered and sold by the Underwriter to certain dealers and others at prices lower than the public offering price stated on the inside cover page of this Official Statement, and such public offering price may be changed, from time to time, by the Underwriter.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF LODI, CALIFORNIA

By: _____
City Manager

APPENDIX A
CONSULTING ENGINEER'S REPORT

LIMITED ENGINEER'S FEASIBILITY REPORT: CITY OF LODI'S WATER SYSTEM AND PLANNED SURFACE WATER TREATMENT FACILITIES

2010 Water Revenue Bonds

PURPOSE AND SCOPE OF THE ENGINEER'S REPORT

This limited engineer's feasibility report has been prepared by HDR Engineering, Inc. (HDR) at the request of the City of Lodi (City). It summarizes the findings and results of HDR's review and engineering analyses with respect to the City's plans to construct a Surface Water Treatment Facility (SWTF or the Project), and independently assess the engineering of the Project.

This report has been prepared to provide information in connection with the issuance by the City of approximately **\$46.6** million of its 2010 Water Revenue Bonds (the Bonds). These Bonds are being issued to provide funds to design and construct the Project, including previously incurred costs and land purchase, fund a deposit to the Bond Reserve Fund, and pay costs of issuance of the Bonds.

The subjects addressed in this report include:

- The Proposed Project
- Regulatory Requirements
- The Engineer's Opinion
- Principal Assumptions and Considerations

The following sections summarize our review of these topics. HDR's review does not address, and provides no opinion on the City Water Utility's existing water system, water sources, projected financial operating results, or its historical, ongoing, or future groundwater contamination issues.

SECTION 1 – THE PROPOSED PROJECT

PROJECT PURPOSE

The City has historically used groundwater to meet its water needs. In 2003, the City entered into an agreement with the Woodbridge Irrigation District (WID) to purchase 6,000 acre-feet per year of the District's pre-1914 Mokelumne River water entitlements. This agreement and purchase are intended to diversify the City's water supply and, in the long-term, reduce its dependence on the local groundwater aquifer.

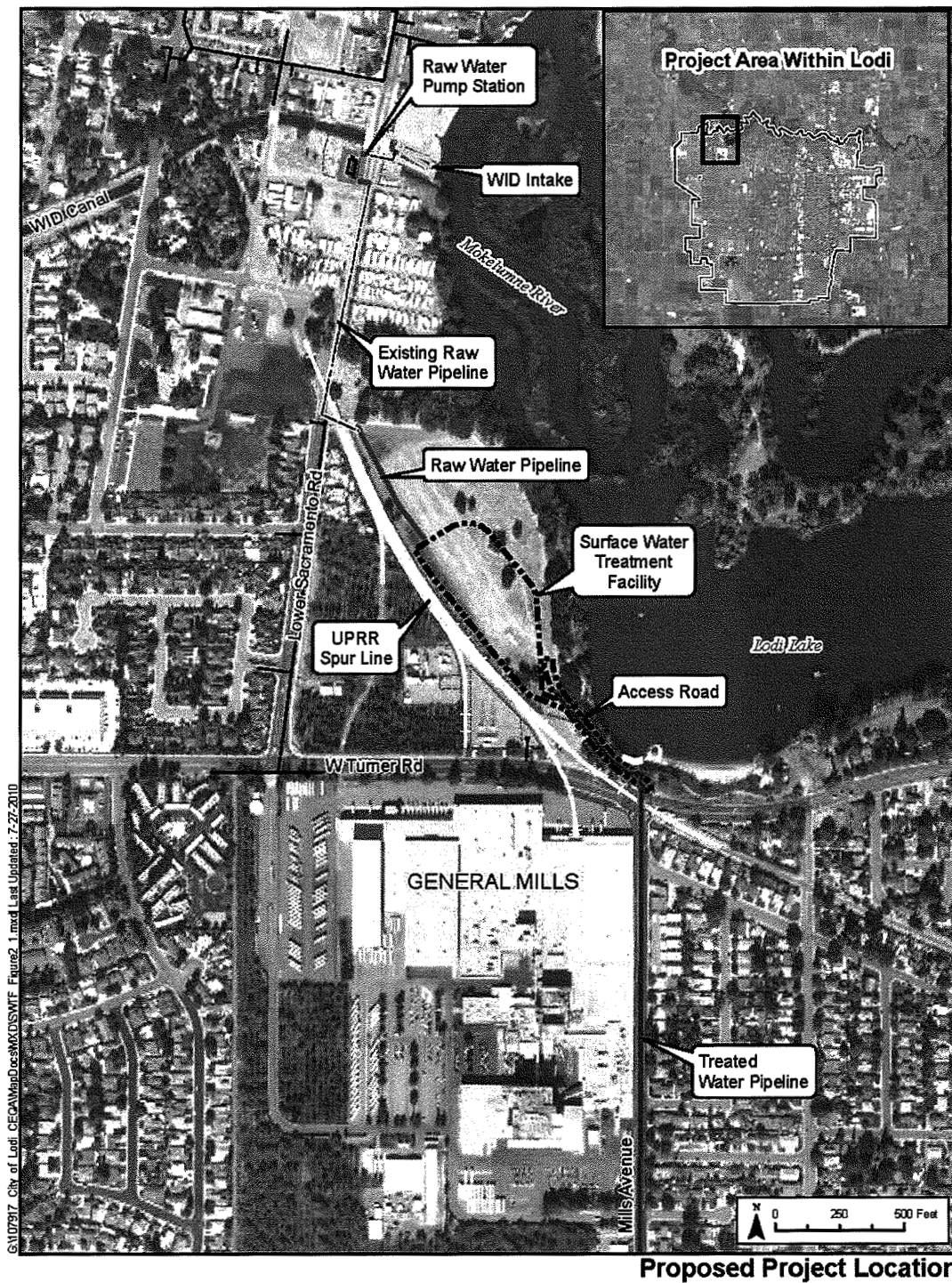
The proposed project is a surface water treatment facility (SWTF) and ancillary facilities, which are intended to provide the City with a long-term, secure and reliable surface water supply to meet current and future potable water needs while reducing dependence on groundwater.

The SWTF is designed to pump up to 11.5 million gallons per day (mgd) of water from the Mokelumne River, treat this water and deliver it to the City's existing water distribution system. The untreated surface water is first passed through a sedimentation basin and autostrainers to remove larger materials. The principal treatment process is a system of membranes that remove finer particles and provide a positive barrier to water-borne bacteria and organisms such as Giardia and Cryptosporidium. This process provides eight mgd of firm capacity (10 mgd peak capacity) of treated water that would meet or exceed state and federal drinking water standards.

PROJECT LOCATION AND GENERAL LAYOUT

The City owns a parcel of 12.75 acres between the Union Pacific Railroad (UPRR) spur line and Lodi Lake near the intersection of Turner Road and Lower Sacramento Road. As shown in Figure 1-1, the SWTF would be constructed on approximately four and a half acres of this parcel at the south end of the property adjacent to the UPRR spur line.

A new entrance road will be located at the north leg of the intersection of Turner Road and North Mills Avenue and will provide entrance to the SWTF. This road would also provide access to future park uses for the area between the SWTF and Lodi Lake in the future.

FIGURE 1-1- PROPOSED PROJECT LOCATION

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MAJOR COMPONENTS OF SWTF PROJECT

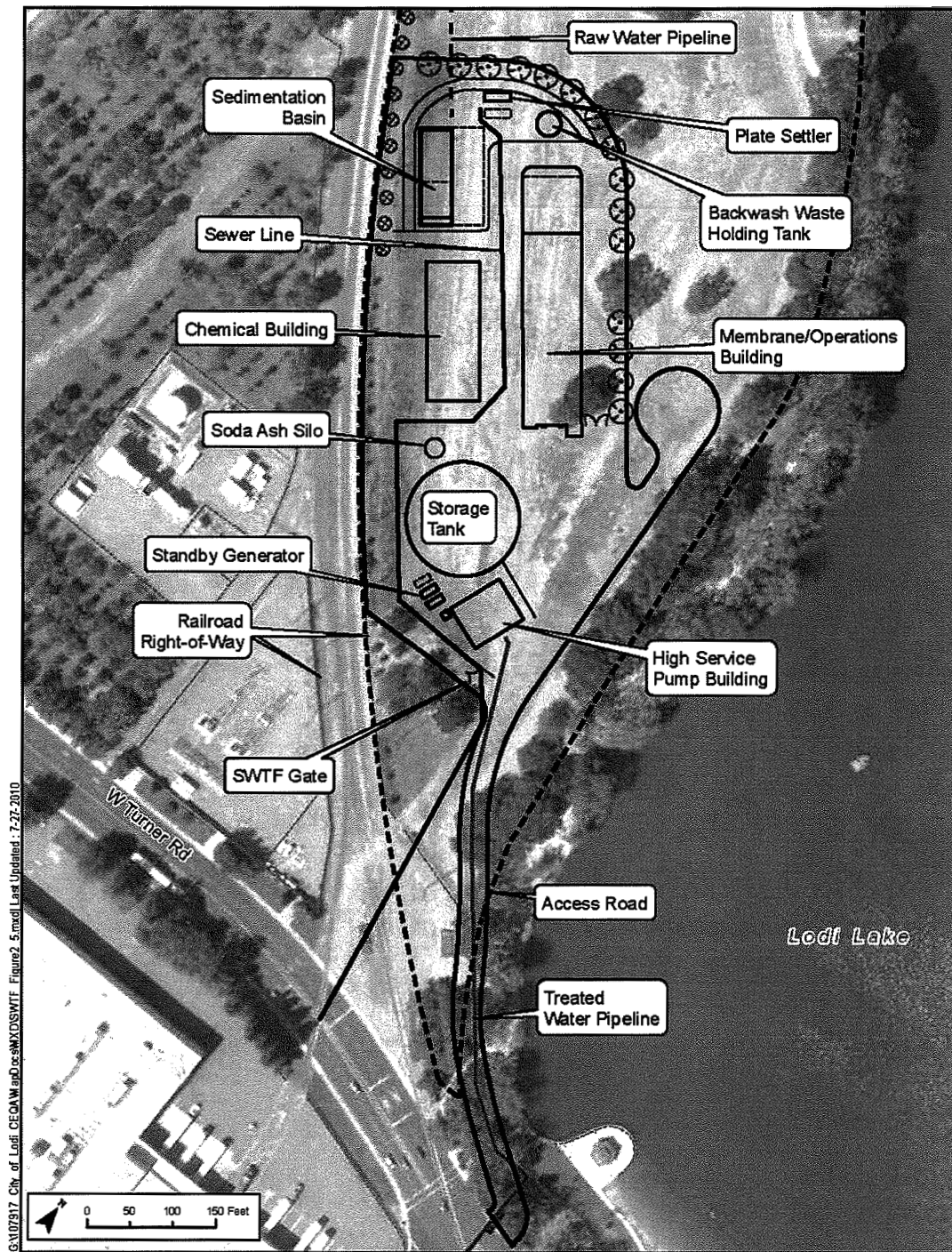
The major components of the SWTF, which are shown in Figure 1-2, include the following:

- Raw Water Pump Station (RWPS) and Pipeline
- Operations Building
- Chemical Building
- Treatment Works (sedimentation basin, autostrainers, feed pumps, and membranes)
- Filtration Waste Tank and Plate Settler
- High Service Pump Station
- Finished Water Storage Tank
- Supervisory Control And Data Acquisition (SCADA) System
- Soda Ash Silo
- Finished Water Transmission Main
- Stormwater and Sewer Systems

During the preliminary feasibility analyses and design activities, HDR evaluated various aspects of the Project, including geotechnical investigations, the location of project components, impacts of blending treated surface water and groundwater, and the layout of the SWTF site. No fatal flaws were uncovered and the results of the feasibility analysis have been reflected in the subsequent project design.

The sections below provide an overview of the major SWTF components, followed by an overview of the project implementation and costs.

FIGURE 1-2 – GENERAL LAYOUT OF PROPOSED SURFACE WATER TREATMENT FACILITY



Layout of SWTF Facilities

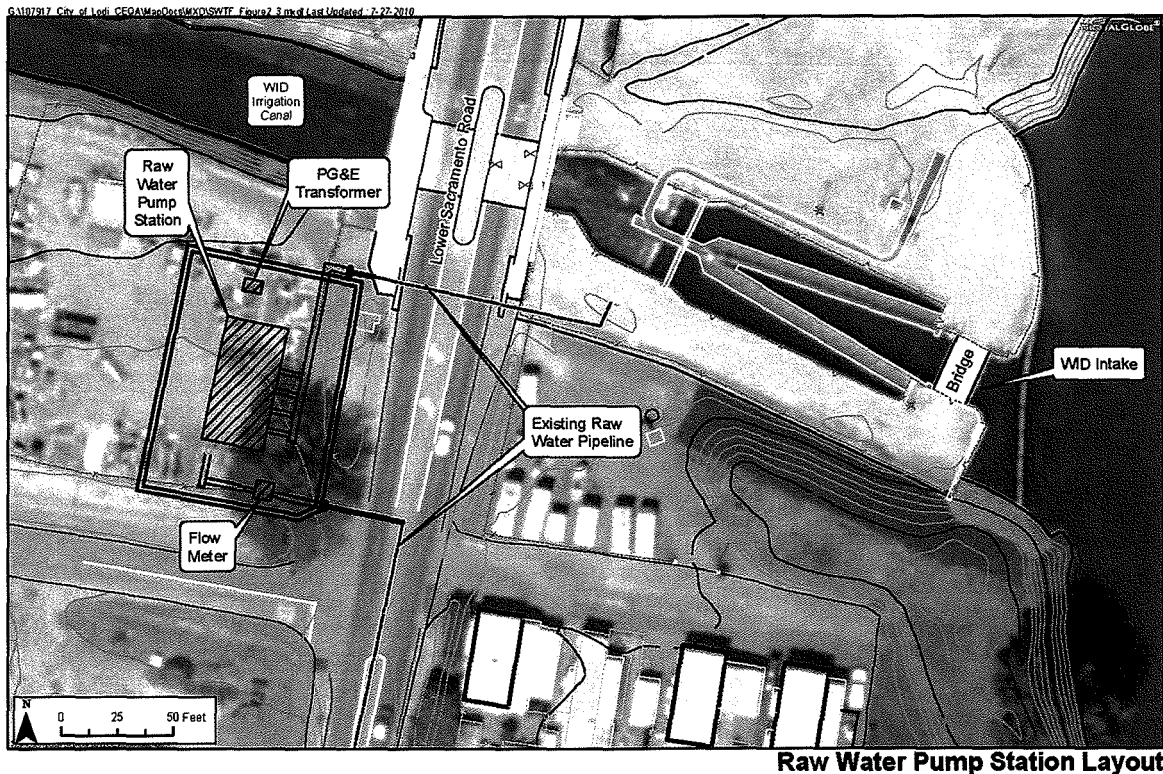
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RAW WATER PUMP STATION (RWPS) AND PIPELINE

The RWPS would occupy approximately 0.2 acres, deliver 2.0 to 11.5 mgd of untreated water to the SWTF, and be expandable to 23 mgd¹. The initial phase is expected to be in operation in less than three years. The layout of the RWPS is provided in Figure 1-3.

FIGURE 1-3 - PROPOSED RAW WATER PUMP STATION LAYOUT



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The RWPS building would include a ventilated pump room and an electrical room designed around vertical turbine pumps. Climate control would be provided for the electrical room to keep the electrical equipment and controls within their operable temperature range.

For durability and security, the building would be constructed using concrete masonry. It would also include acoustical barrier panels on the pump room walls and use acoustical louvers to attenuate the noise generated by the motors.

Since the RWPS will be located outside the area served by Lodi Electric, electrical service from Pacific Gas and Electric (PG&E) would be used.

The finished floor elevation of the building would be 45.5 feet above mean sea level, approximately six inches above finished grade, and one foot above the 100-year floodplain. To

¹ The footprint will not change when the RWPS is expanded.

protect the RWPS from vandalism or other threats to the City water supply, security measures would include:

- Secure locks and intrusion alarms on the doors
- Lighting on all sides of the building
- Video cameras to record and store up to 24-hours of data, located outside the building
- Fencing with access from Carolina Street.

Decorative fencing, similar to the existing fish screen fencing, would be provided for the area facing Lower Sacramento Road and Carolina Street. A sidewalk, curb, and gutter would be constructed along the Carolina Street frontage of the RWPS.

OPERATIONS BUILDING

The Operations Building would house administrative offices, the operations and control room, the laboratory, locker rooms, membrane filtration equipment, membrane cleaning equipment, and associated electrical gear. Sanitary service would be routed under the railroad tracks to the existing sewer main in N. Mills Avenue and connected to an existing manhole.

Electrical service would be provided by Lodi Electric. The service requirements would be 4,000 ampere, 480/277 volt, three-phase, four-wire electrical service, which would be sufficient to handle the additional loads installed in the future for 20-mgd service.

A small standby generator to operate critical systems (computers, lights HVAC system, etc.) during power outages would be located near the treated water storage tank. A larger, expandable standby diesel engine generator is planned for the future to provide electrical power to the SWTF in case of a power outage. The future backup power system would operate the membrane equipment; chemical feed system; high service pumps; facility lighting; heating, ventilation, and air-conditioning (HVAC) equipment, and supervisory control and data acquisition (SCADA) equipment during power outages.

The room housing the filtration equipment would have ample exterior access for equipment maintenance. Roll-up doors would be constructed to allow installation and removal of large pieces of equipment, such as the membranes and pumps. Overhead doors would be placed in other areas, such as the chemical, mechanical and electrical rooms, to accommodate equipment access.

CHEMICAL BUILDING

The Chemical Building would include the following rooms and equipment:

- membrane feed pump and autostrainers;
- electrical room;
- mechanical room
- polymer room,
- corrosion inhibitor room,
- coagulant room,
- sodium hypochlorite generator and feed room;

- aluminum chlorohydrate storage and feed room;
- workshop

There is space on site to expand the chemical building to include future rooms as needed for mechanical dewatering, ultraviolet (UV) light disinfection, powdered activated carbon, or fluoride. Sanitary service for the Chemical Building would also be routed under the railroad tracks to the existing sewer main in N. **Mills** Avenue.

TREATMENT WORKS

The SWTF membrane treatment components would include the sedimentation basin, autostrainers, membrane feed pumps, membranes, and ancillary support systems such as Clean-In-Place (CIP) system and compressed air systems.

SEDIMENTATION BASIN – A sedimentation basin, located along the northwestern property line, would protect the membranes from fine sand particles that could pass through the autostrainers. The basin would allow sufficient contact time for coagulation and settling of fine sand. The basin would be approximately 113 feet long by 35 feet wide and would handle 12 mgd at a water depth of 16 feet.

The basin would be split into three parts: inlet channel, sedimentation basin, and effluent chamber. After being injected with a pre-oxidant and coagulant, the raw water would enter a two-foot-wide inlet channel that would span the width of the basin. The inlet channel would be used to minimize turbulence and promote even flow distribution across the sedimentation basin.

A sludge collector would be installed on the basin floor to collect and discharge settled particles directly to the sewer or to the backwash waste tank, which could reclaim the water by thickening the solids. The final section of the basin would include an eight-foot wide-effluent chamber that would supply the membrane feed pumps. In the future, the sedimentation basin could be divided into a flocculation basin followed by inclined settling plates, if more aggressive pretreatment is required. Space would be reserved for a second basin upon future expansion.

AUTOSTRAINERS – Autostrainers would remove any pine needles, leaves, or other items in the raw water influent that pass through the fish screens and sedimentation basin, as well as any small particle down to 400 microns. Any particles of significant size could damage the membranes and decrease their treatment efficiency. Two strainers would be installed to meet the initial treatment capacity and would be equipped with an automatic cleaning system that operates without the unit being taken out of service.

MEMBRANE FEED PUMPS – Raw water from the sedimentation basin would feed the centrifugal membrane feed pumps housed in the Chemical Building. During the initial phase, three 200-hp pumps would be installed (two duty; one standby), each having a capacity of 4,164 gpm (6 mgd) to provide a firm capacity of 12 mgd. Additional capacity would be provided as required in the future by adding a fourth pump (three duty; one standby) and replacing the 200-hp pumps with larger pumps, each with a capacity of 5,552 gpm.

The pumps would be designed to provide sufficient pressure through the autostrainers, membranes, and all piping and valves to the treated water storage tank. The associated suction,

discharge isolation, and check valves would be sized for the final phase conditions to make future pump installation more cost effective.

MEMBRANES – After passing through the sedimentation basin and the autostrainers, the membranes become the primary filtration component in the production of treated water and provide a positive barrier to bacteria and organisms such as Giardia and Cryptosporidium. The treated water would meet or exceed state and federal drinking water standards.

The membrane system would have five equally sized trains (2 mgd each) for an initial firm capacity of 8 mgd, with one train out-of-service. The membrane system would be expandable to 20 mgd with the addition of more trains. All trains could be operated concurrently to provide additional capacity.

HIGH SERVICE PUMP STATION

The high service pump station would be housed in a concrete-block building that would also have an electrical room containing the main switch gear for the SWTF. The initial phase of the high service pump station would have a firm capacity of 10 mgd, expandable to 25 mgd. The future pump station capacity would be greater than the SWTF's 20 mgd capacity to account for peak periods when demand exceeds treatment capacity. The initial phase would have three 200-hp pumps (two duty; one standby); the final phase would replace these with four larger pumps (three duty; one standby)

FILTRATION WASTE TANK AND PLATE SETTLER

The water used to clean and backwash the membranes would be stored in a 50,000 gallon steel tank that would be 24-feet in diameter and 17-feet in height. The backwash water would be pumped from the tank to a plate settler to remove solids. The clarified water would be reclaimed back to the sedimentation basin for treatment while the settled solids would be discharged to the sewer.

FINISHED WATER STORAGE TANK

The three-million gallon storage tank would be a 130-foot-diameter, partially buried (to minimize its visual impact), pre-stressed concrete tank that would store treated water at the SWTF prior to pumping into the City's water distribution system. The tank would be 35 feet in total height, with 25 to 28 feet above grade and seven to 10 feet below grade. It would have three to four feet of free board and provide chlorine contact time to inactivate disease-causing organisms. The inlet, discharge, and overflow pipes would enter and exit through the tank floor.

SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA) SYSTEM

The SWTF SCADA system would operate the RWPS, storage facilities, and groundwater wells, and would be a fully functional network node monitored remotely from the City's central SCADA location at the City's Municipal Service Center. The SCADA system would provide control and automatic operation of the water treatment processes as well as electronic storage of plant operating and regulatory compliance data.

SODA ASH SILO

The soda ash feed system would be contained within a standard 12-foot diameter steel silo, located where the treated water pipeline enters the concrete storage tank. The top portion of the silo is the soda ash storage tank, beneath which is housed the mixing and feed system. The silo will have a height of approximately 26 feet and would hold approximately 30 days storage of soda ash, which would be approximately 35 to 40 tons at build-out. The system would include a dust collector to prevent soda ash dust from leaving the silo, and would be painted a neutral (tan or gray) color to match the other structures on the site.

STORMWATER SYSTEM

Stormwater collection at the **SWTF** would comply with the City's Stormwater Management Program. Bordered areas in and around the plant would be filled with gravel as a structural best management practice (BMP). The borders would be excavated approximately six inches and backfilled with gravel material or decorative rock. The gravel would serve to reduce stormwater pollution and ongoing costs for vegetative landscape maintenance. Stormwater would percolate through the gravel into the ground. Periodically, when large volumes of stormwater are collected, the gravel would serve to filter the runoff prior to it entering the catch basins. Borders around the perimeter of the **SWTF** site would have trees to help screen the SWTF from the park. The storm drain system would connect to the existing stormwater pump station near the **SWTF** entrance.

TREATED WATER TRANSMISSION MAIN

The City's existing distribution system is connected by pipelines predominantly 6-, 8-, and 10-inches in diameter, with none greater than 14-inches. As a result, the City's distribution system does not have sufficient capacity to transmit large flows. Therefore, the treated water main will have four connections to 8-inch diameter and larger pipelines in the distribution system. The four connection points for the **SWTF** would be on North Mills Avenue at Turner Road, Yosemite Drive, Lockeford Street, and Elm Street.

The treated water main would be a 3,200 linear-foot, 36-inch diameter transmission pipeline, exiting along the south side of the **SWTF** parallel to the railroad tracks, and would follow the access road to the intersection of Turner Road and North Mills Avenue. At that point, it would tunnel under the railroad tracks and continue south along North Mills Avenue to Elm Street. The entire surface of North Mills Avenue will be repaved and corners will be improved with ADA compliant ramps. To provide future service to developments west of Lower Sacramento Road, the water transmission main would need to be extended another 2,400 feet to the south along West Lodi Avenue and continue west past Lower Sacramento Road.

OPERATIONS AND MAINTENANCE COST ESTIMATES

The estimated annual operating costs for the surface water treatment facility, including labor, materials and other operations and maintenance costs, are \$1.7 million in the first year and \$1.4 million in subsequent years, as summarized in Table 1-1. These estimates are discussed in more detail below.

TABLE 1-1
SUMMARY OF ESTIMATED ANNUAL O & M COSTS

O&M cost	Post-Commissioning	Optimized Operations
Non-Labor Operating and Maintenance Costs	\$545,513	\$545,513
Labor Costs	\$1,158,560	\$845,520
Total Estimated Annual O&M Cost	\$1,704,073	\$1,391,033

There are *two* periods for which O&M costs were estimated:

- **Post-Commissioning Period** – This is the first year of operations, or the “shakedown” period, during which the plant will be required to maintain a qualified water treatment plant operator on-site 24 hours per day. SCADA controls, monitoring, and alarming are re-tested under all operating events, instrument calibrations are verified, and treatment performance is monitored, evaluated, and documented to ensure all systems function as designed to meet treatment objectives.
- **Optimized Period** – This occurs after the post-commissioning period when the fine tuning and optimizing of the treatment plant performance have occurred and the plant has achieved more typical, long-term operating costs.

LABOR COSTS

The labor costs shown below are only for the Project and therefore exclude any costs associated with the City's existing water system. During the period of March 1 through October 15, SWTF production is assumed to be 24 hours per day, seven days per week in order to utilize as much of the surface water allocation as possible. From October 16 through the end of February, the surface water allocation is limited to 1,000 ac-ft.

Labor costs also reflect periods when the plant is shutdown for scheduled maintenance events during normal production periods (six hours maximum), and the four-to-six weeks every year after October 15 when WID performs canal maintenance; SWTF equipment maintenance requiring longer shutdown periods are planned to be performed during this time.

In evaluating typical job activities and labor costs, HDR has reviewed experiences at similar facilities. An estimated nine new personnel will be needed during the post commissioning period, assuming that a certified operator will be on-site 24 hours per day until the facility is ready to shift to unattended operations. Once operations are optimized, staffing requirements are expected to decrease to approximately five personnel. The estimated total annual labor costs for post commissioning and optimized periods are \$1.16 million and \$850,000, respectively, as summarized in Table 1-2.²

² The post-commissioning estimate is the higher of a range of estimates, with the lower estimate about 8% less. Labor estimates for both post-commissioning and optimized operations periods may vary once actual operations are stabilized and refined, and could be less than estimated.

**TABLE 1-2
POST COMMISSIONING AND OPTIMIZED PERIOD LABOR COSTS**

Position Classification	Labor Hours (hrs/week)	Labor Rate (\$/hr)^a	Labor Costs (\$/yr)
Post-Commissioning Baseline			
WWTP – Chief Plant Operator (Chief Operator)	40	\$86.00	\$178,880
Environmental Compliance Inspector (Operator/Lab)	40	\$75.00	\$156,000
Gr. III WWTPO (Swing Shift Lead)	40	\$60.00	\$124,800
Gr. III WWTPO (Midnight Shift Lead)	40	\$60.00	\$124,800
Gr. II WWTPO (Operator 1)	40	\$55.00	\$114,400
Gr. I WWTPO (Operator 2)	40	\$55.00	\$114,400
Electrician (Inst./Controls)	40	\$81.00	\$168,480
Plant & Equipment Mechanic	20	\$64.00	\$66,560
Maintenance Worker	40	\$53.00	\$110,240
Total – Post Commissioning	340		\$1,158,560
Optimized Operations			
WWTP – Chief Plant Operator (Chief Operator)	40	\$86.00	\$178,880
Environmental Compliance Inspector (Operator/Lab)	40	\$75.00	\$156,000
Gr. II WWTPO (Operator 1)	40	\$60.00	\$124,800
Gr. I WWTPO (Operator 2)	40	\$60.00	\$124,800
Electrician (Inst./Controls)	40	\$81.00	\$84,240
Plant & Equipment Mechanic	20	\$64.00	\$66,560
Maintenance Worker	40	\$53.00	\$110,240
Total – Optimized Operations	240		\$845,520

a. Obtained directly from the City. Rate represents raw rate plus 50% for benefits and overhead costs.

NON-LABOR OPERATING AND MAINTENANCE COSTS

Based on experience at similar facilities and current materials costs, a summary of annual non-labor **O&M** costs is shown in Table 1-3. These costs are the same for both the post-commissioning and optimized periods. These costs would be expected to change in proportion to changes in chemical and materials costs, which HDR cannot project at this time.

**TABLE 1-3
POST COMMISSIONING AND OPTIMIZED PERIOD O&M COSTS**

Item	Annual Quantity	Unit Cost	Annual Cost
Chlorine for Wells, lbs	34,000	\$1.25	\$42,500
On-site Generated Chlorine	1	\$40,000	\$40,000
Caustic, lb	4,650	\$0.25	\$1,163
Citric Acid, lb	29,000	\$0.60	\$17,400
Sodium Bisulfite, lbs	15,812	\$1.20	\$18,974
Soda Ash, lbs	292,234	\$0.27	\$78,903
Alum, lbs	23,000	\$0.17	\$3,910
Raw Water Pumping	176,096	\$0.11	\$19,371
Membrane Pumping	431,435	\$0.11	\$47,458
Membrane EFM/CIP/Compressor	472,000	\$0.11	\$51,920
High Service Pumping	978,310	\$0.11	\$107,614
Materials	1	\$65,000	\$65,000
Solids Disposal to Sewer	1	\$51,300	\$51,300
Estimated Annual Non-Labor O&M Costs			\$545,513

PROJECT IMPLEMENTATION

Construction of the Project is expected to take approximately 18 to 24 months and would utilize a portion of the 12.75 acre site for construction staging. The major construction phases would be:

- Clearing and Grubbing
- Intersection Improvements
- Excavation and Site work
- Structural Facilities
- Electrical, Process Mechanical, and Instrumentation
- Paving and Striping
- Architectural, Landscaping, and Security
- Startup and Testing

The primary construction material for structures stored on site would include concrete and concrete block; steel and ductile iron would be used for major process piping; and the chemical storage tanks would use an HDPE material.

PROJECT COST

As described below, the total costs of the project, including construction costs, previously incurred costs, and land costs, is approximately \$42.5 million.

PREVIOUSLY INCURRED COSTS – Since entering into the WID Water Purchase Agreement in 2003, the City has expended approximately \$3.9 million in the form of studies, design of the surface water treatment plant facilities, and staff costs. A partial listing of these expenditures is provided in Table 1-4.

**TABLE 1-4
PREVIOUSLY INCURRED COSTS**

Description	Cost Incurred
Laboratory Testing	\$33,800
Conceptual Design and Feasibility Review	\$377,000
Preliminary Design and Environmental Review	\$858,000
Final Design, Plans and Specifications	\$1,737,000
Design Review (Ecologic)	\$50,000
Financial Planning and Legal	\$107,000
City Staff	\$110,000
Raw Water Intake Pipe Construction	\$572,000
Miscellaneous	\$25,000
Total	\$3,869,800

LAND PURCHASE COST – As previously shown in Figure 1-1, the surface water treatment facilities will utilize 4.5 of the 12.75 acres located west of Lodi Lake. Based on a recent comparable land appraisal³, City staff estimates the value of the four and a half-acre Project site to be approximately \$287,500 per acre, or a total of \$1,290,000. The remaining 8.25 acres will be used for the access road, pedestrian trail, an earthen berm, and a future group picnic area.

CONSTRUCTION COSTS – As shown in Table 1-5, the estimated remaining project cost is \$37.4 million, which includes construction, construction administration, inspection and testing services for the various elements of the project. This estimate is based upon a 90% complete set of plans and specifications. Including previously incurred costs and land costs, the total cost is \$42.5 million. However, construction bids are expected to be submitted during September 2010. Therefore, bid costs will be known prior to the Bonds being issued.

³ City staff considered the recent appraisal prepared for the Tienda Drive Affordable Housing project to be an appropriate comparable appraisal.

TABLE 1-5
ESTIMATED CONSTRUCTION COSTS

Description	Estimated Cost
Project Costs	
General Requirements	\$3,311,000
Onsite Construction	\$29,571,000
Construction Services	\$1,973,000
Contingency (5%)	\$1,417,000
Escalation to Midpoint of Construction (4%)	\$1,133,000
Subtotal	\$37,410,000
Previously Incurred Costs	\$3,869,800
Land Costs	\$1,290,000
Total	\$42,569,800

SECTION 2 – REGULATORY REQUIREMENTS

CURRENT REGULATORY REQUIREMENTS

The City's existing water system currently meets safe water drinking standards, although to ensure water quality standards are met, chlorination equipment has been added to all wells (except the three planned for de-commissioning), and six of the 27 wells have added granular activated carbon (GAC) treatment for the removal of DBCP.

To ensure that the City is meeting the necessary regulatory requirements, the City has assigned to and/or contracted for necessary environmental assessment and permitting services. HDR has provided facility and design services, and the City will use construction management services to ensure the facilities are constructed in compliance with design and regulatory requirements.

The surface water treatment facilities (the Project) have been designed with the intent of meeting or exceeding existing state and federal drinking water standards, and will provide treatment for virus, bacteria, and protozoa organisms such as Giardia and Cryptosporidium.

Table 2-1 lists the various federal, state, local, and other permits/approvals that would be required for construction and operation of the proposed surface water treatment plant facilities.

TABLE 2-1
REGULATORY REQUIREMENTS AND PERMITS FOR SWTF FACILITIES

Agency	Type of Approval	Project Component
State Agencies		
Central Valley Regional Water Quality Control Board	National Pollutant Discharge Elimination System (NPDES) Construction Storm Water Permit ^a	SWTF, RWPS, and raw and treated water pipelines
	General Order for Dewatering and Other Low Threat Discharge to Surface Waters Permit ^a	SWTF, RWPS, and raw and treated water pipelines
	NPDES Industrial Storm Water Permit	SWTF
California Public Utilities Commission	Authorization to Alter Highway-Rail Crossing Pursuant to General Order 88-B	Treated water pipelines
California Department of Public Health	Domestic Water Supply Permit Amendment ^b	SWTF
Local/Other Agencies		
San Joaquin Valley Air Pollution Control District	Authority to Construct ^a	SWTF, RWPS, and raw and treated water pipelines
	Permit to Operate ^c	RWPS and SWTF
San Joaquin County	Site Approval Permit	RWPS ^d
Union Pacific Railroad	Crossing and/or Encroachment Permit	Treated water, sewer, natural gas pipelines and electrical service
San Joaquin Council of Governments	San Joaquin County Multi-Species Conservation & Open Space Plan Incidental Take Measures ^b	SWTF, RWPS, and raw and treated water pipelines
City of Lodi	Storm Water Management Plan ^b	SWTF, RWPS, and raw and treated water pipelines
	Building Permit ^b	SWTF, RWPS, and raw and treated water pipelines
	Site Plan and Architectural Review ^b	SWTF, RWPS, and raw and treated water pipelines

POTENTIAL REGULATORY CHANGES

No significant regulatory changes are anticipated over the next several years. Over the longer term, possible new regulations could include new maximum contaminant levels for currently unregulated chemicals such as MTBE. There are currently no known new contaminants of concern that would affect the Utility.

The City is conducting water quality testing in accordance with the EPA regulations to assess the possible presence of water-borne bacteria and organisms in the water supply, such as *cryptosporidium*. The proposed treatment system is consistent with and suitable for previous and expected future test results. However, if higher than expected levels occur in the future, a UV disinfection system would need to be added. Space has been provided on the **SWTF** site for this system in the unlikely event it is needed.

SECTION 3 – THE ENGINEER'S OPINION

OVERVIEW

Based on the previous sections in this report, HDR has developed opinions related to the City's planned surface water treatment facilities. These are presented below. These opinions rely on the data, information and documents provided by others, as discussed in Section 4 "Principal Assumptions and Considerations".

HDR has not reviewed, and provides no opinion related to the City's existing water utility, water sources, projected financial operating results, or its historical, ongoing, or future groundwater contamination issues.

ENGINEER'S OPINION

The following opinions are organized by topic and generally follow the order of the previous sections in this report.

PROPOSED CAPITAL PROJECT: *ARE CONSTRUCTION COST ESTIMATES AND THE BIDDING PROCESS REASONABLE; ARE TECHNOLOGIES PROVEN; IS THE CITY ABLE TO MANAGE THIS PROCESS; AND IS THE CITY LIKELY TO MEET THE CONSTRUCTION SCHEDULE?*

- The remaining cost of the Project, estimated at \$37.4 million, includes construction, construction administration, and inspection and testing services, and is reasonable based on a/the 90-percent complete set of plans and specifications.
- Together with previously incurred costs of approximately \$3.9 million and land costs estimated at \$1.3 million, a total Project cost of approximately **\$42.6** million is reasonable based on the current construction climate and design standards.
- During the preliminary feasibility analyses and design activities, HDR evaluated the general feasibility of the Project, including geotechnical, engineering, and operational aspects, and the impacts of blending treated surface water and groundwater; HDR found no fatal flaws and concluded that the Project is feasible as currently designed.
- The Project relies on well-proven technologies and standards which are accepted by the water treatment engineering community. The City's planned construction methods have

been previously tested on similar water treatment facilities and do not include any abnormal associated risks.

- The Project's key treatment membrane technology, a Pall Microza microfiltration pressure membrane system, has already been used in at least 10 other municipal surface water treatment facilities in California. The Project design concepts are sound and the facilities can reasonably be expected to perform as designed.
- The City has adequately planned its bidding and selection process, and HDR is of the opinion that the City will be able to successfully manage the construction and complete the Project within **24** months from the time the bids are awarded and a notice-to-proceed is provided.

REGULATORY REQUIREMENTS: DOES THE SYSTEM COMPLY WITH CURRENT REQUIREMENTS; WHAT ARE THE RISKS OF FUTURE REQUIREMENTS?

- The City's existing water system currently meets safe water drinking standards. However, to ensure water quality standards are met, chlorination equipment has been added to all wells (except the three planned for de-commissioning), and six wells have added granular activated carbon (GAC) treatment for the removal of DBCP.
- The City has appropriately assigned to and/or contracted for necessary environmental assessment and permitting services, facilities and design services, and construction management services with competent and appropriate skills and experience in their respective areas of responsibility.
- The surface water treatment facilities (the Project) have been adequately designed to meet or exceed existing state and federal drinking water standards, and to provide treatment for virus, bacteria, and protozoa organisms such as Giardia and Cryptosporidium.

SECTION 4 – PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

KEY SOURCES OF DATA

HDR has prepared this limited review of the City's Water Utility based on several key sources of data:

- The City staff's "White Paper," prepared for the City Council, which provides an overview and summary of relevant data, project history, and issues related to the new surface water treatment facilities.
- Previous HDR design studies, preliminary design documents, and 90-percent complete plans and specifications.
- Other information and data provided by the City's Water Utility, finance team and technical consultants, including:

- Water quality information
- Regulatory compliance information

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

In preparing this report and the opinions that follow, HDR has relied on a number of principal assumptions and considerations with regard to conditions that may occur in the future. This information and the assumptions, including the key sources of data listed above, were provided by sources we believe to be reliable.

While we believe HDR's use of such information and assumptions is reasonable for the purpose of this report, some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

The principal considerations and assumptions made by and/or provided to HDR by others include the following:

- The City's current plans to construct the Project facilities have been appropriately and legally approved by the Lodi City Council.
- The City's current projections for future water demand are accurate for the purposes of planning the surface water treatment facilities (Project).
- The City's agreements with Woodbridge Irrigation District are valid and will be executed and fulfilled as described by City staff.
- The City has adequately evaluated and prepared water rate analyses and will successfully adopt and implement rates that are sufficient to fund the Project, including repayment of the Bonds.
- The City will not incur additional future groundwater contamination costs beyond those outlined in the City's White Paper.
- The City has prevailed in its lawsuits, and will prevail regarding liabilities for the cleanup of groundwater contamination.
- The 2010 Water System Revenue Bonds will be issued at reasonable interest rates and terms, consistent with those estimated by Stone & Youngberg and Lamont Financial Services, Corp., who are advisors to the City.
- The City will hire competent construction management to oversee the construction of the Project facilities.

APPENDIX B
RATE CONSULTANT'S REPORT

CITY OF LODI

Water System Financial Strategy

Summary Report

September 30, 2010



THE REED GROUP, INC.

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SECTION I. SUMMARY

INTRODUCTION

The City of Lodi retained The Reed Group, Inc. in 2008 to assist in developing financial plans and utility rates for the City's water and wastewater utilities. Extensive analyses have been performed over the past two years to help guide the City in dealing with a variety of water and wastewater rate and financial issues. The purpose of this report is to summarize the financial strategy supporting the activities of the City's water utility. It has been prepared in conjunction with the City's efforts to secure financing for its new surface water treatment plant (WTP).

This report describes the following issues concerning the City's water utility and related financial needs:

- ❖ Development of and underlying assumptions in a multi-year financial plan
- ❖ Current and estimated future operating and maintenance costs, including debt service obligations, of the water system
- ❖ Planned water system capital improvements, which predominately include a water meter retrofit program and construction of the new WTP
- ❖ Estimated annual water system revenue requirements
- ❖ Summary of anticipated costs and funding related to PCE/TCE monitoring and remediation efforts
- ❖ Statutory obligations for installing water meters on all unmetered water service connections by 2025
- ❖ Recent action by the City Council to adopt new water rates and rate structures
- ❖ New usage-based water rates for metered single family residential customers
- ❖ Planned strategy for transitioning flat rate customers to water usage-based rates, including underlying assumptions of timing, impact on water demand, and potential revenue volatility risk
- ❖ Planned strategy to fund the water meter retrofit program through water meter installation charges to be imposed on property owners receiving water meters under the retrofit program
- ❖ Planned strategy for adopting a new water impact mitigation fee to reflect costs associated with the new WTP, as well as capacity in the existing water system.

SUMMARY OF TEN-YEAR FINANCIAL PLAN ANALYSIS

Development of the financial strategy for the City's water system involved development of a ten-year financial planning model. The financial plan is a cash flow model reflecting current and estimated future revenues, operating and maintenance expenses, debt service obligations, capital improvement plans, and financial reserves. The plan is based on the City's fund and account structure and has been used nearly

continuously over the past two years to evaluate financial issues, revenue needs, and the potential impacts of various potential funding strategies and decisions. Information contained in the model is based on data and information provided by the City and includes estimates of future costs and revenues based on assumptions for growth, interest and inflation rates, and future actions of the City. While the analyses are based on assumptions that have been reviewed with the City and are believed to be reasonable at the present time, no assurances can be made as to the accuracy of the future estimates.

As a cash flow model, the financial planning model differs from the City's Comprehensive Annual Financial Report (CAFR), which includes audited financial statements. The model covers a planning period through FY 19-20 and is predominately used to evaluate cash flow needs and the consequences of future plans and assumptions.

The financial needs of the water utility can be viewed by considering three major areas of cost, including:

- ❖ Ongoing operating and maintenance costs associated with operating the water system and continuously delivering water to the City's customers. In addition to inflationary cost increases, water system operating costs will increase at the start of operation of the new WTP. Current budgeted operating and maintenance costs are about \$5.8 million annually, and are estimated to increase to about \$9.2 million by FY 19-20.
- ❖ Implementation of the water meter retrofit program, as required by California statute, to install water meters on all unmetered water service connections. The future capital cost of this program is estimated to be about \$43.3 million through FY 15-16 (in inflated future dollars). A significant portion of the cost of this program involves the replacement of small diameter, aged, and backyard water mains.
- ❖ Construction of a new WTP at an estimated cost of about \$36.5 million (escalated to mid-point of construction). The WTP will be financed through the issuance of about \$39.535 million in Water Revenue Bonds before the end of 2010¹. Annual debt service on the tax-exempt bonds has been estimated at about \$2.65 million.

The water system is also bearing costs associated with the monitoring and remediation of groundwater contamination from PCE/TCE. However, the City has in excess of \$18 million in reserves, principally from legal settlements, that is available to cover related costs through FY 19-20. Based on estimates developed by the City, the existing \$18 million in restricted reserves may be sufficient to cover anticipated costs beyond FY 19-20. While PCE/TCE costs and settlement monies have been considered in developing the financial strategy for the water utility, they are not included in the exhibits presented in this report.

To meet current and future financial obligations the City plans to utilize the following resources:

- ❖ About \$14 million in available water utility reserves at the beginning of FY 10-11.

¹ Assumes use of Tax-Exempt Bonds. Estimates provided by Stone & Youngberg, LLC as of September 21, 2010 using current interest rates, plus 25 basis points.

- ❖ A current (FY 09-10) annual water rate revenue base of about \$11.7 million. In addition, the City Council, in July 2010, approved a 2 percent water rate increase effective in January 2011 as well as authorized annual inflationary adjustments to water rates beginning in January 2012 (re-approval in inflationary indexing of water rates is required every five years). With annual inflation-indexed rate adjustments of 3.5 percent the annual water rate revenue could grow to about \$16.3 million by FY 19-20 (other assumptions, described later in this report, are also reflected in this estimate).
- ❖ Implementation of a water meter installation charge for property owners receiving a water meter as a result of the water meter retrofit program. Under the proposal to be considered by the City Council in early 2011, one-time charges ranging from \$300 to \$1,200 would be imposed on single family property owners. Under the proposal, property owners would have the option to pay the water meter installation charge in one lump sum or through monthly installments over a 7-year period at the Local Agency Investment Fund (LAIF) rate plus 1 percent (currently 1.5 percent) with the charge appearing on the utility bill². These charges are estimated to generate a total of about \$12.4 million through FY 17-18. The cost of the water meter retrofit program not covered by the water meter installation charges can be covered with existing available reserves and a portion of annual water rate revenues.
- ❖ Update to the City's water impact mitigation fee to reflect the cost of the new WTP, as well as the cost of capacity in the existing water distribution system. Preliminary estimates indicate that the fee may increase to about \$8,000 for a single family connection. Proposed new water impact mitigation fees are expected to be brought to the City Council for consideration in late 2011, when the City plans to update all impact fees. While new development activity is very low at present, a growth rate of 1 percent annually (about 250 connections) could generate about \$2 million annually with the preliminary fee amount. Assumptions used in the analyses presented herein conservatively estimate total water impact mitigation fee revenue over the next 10 years to total about \$4.3 million³.

Anticipated revenues from the sources described above are estimated to be sufficient to meet the expected financial obligations of the water utility through FY 19-20, and may also enable the City to prepay a significant portion of debt associated with WTP financing. Prepayment of debt may be allowed ten years after issuance.

Because of the cash requirements of the water meter installation program, cash balance will be at minimal levels in FY 14-15 and FY 15-16. While the water utility fund balance decreases to below the desired minimum target operating reserve in this period, it rebounds quickly upon completion of the metering program. Financial plan assumptions are reasonably conservative. However, should the utility approach unacceptable cash levels the City has the ability to (1) extend the duration of the meter installation program,

² If renters receive the utility bill, the water meter installation charge would be billed separately directly to the property owner.

³ Assumptions include 50 new connections per year (about 0.2 percent annual growth) and inflationary increases in the amount of the water impact mitigation fee.

(2) adjust water rates to maintain desired reserves, and (3) temporarily access PCE/TCE cash reserves as a backstop to low general cash reserves within the water utility. Details of the financial planning model are presented later in this report.

STRATEGY FOR WATER RATES AND CHARGES

The City's strategy for implementing water rates and charges sufficient to meet the financial needs of the water utility are summarized below.

Implementing Usage-Based Water Rates

Beyond meeting the financial needs of the water utility through the system of water rates and charges described above, the City's financial strategy also includes implementation of usage-based water rates for single family customers as they convert from flat (unmetered) water rates. In July 2010, the City Council approved new usage-based water rates to be implemented in January 2011. Approximately 3,000 single family customers will be converted to these rates at that time. Then, each year during the meter retrofit program, additional customers will be converted to the usage-based water rates.

Prior to being converted to usage-based billing, the City plans to provide each customer with a multi-month history of actual water usage, as well as comparison bill information showing how water bills under the usage-based billing compare with flat rate billing. Typical customers will see higher water bills during peak summer months and lower bills during winter months when water usage tends to be lower. Many customers will experience lower overall costs for water service under usage-based water rates.

The development of usage-based water rates for single family customers reflects the assumption that customers will reduce water usage by 10 percent as a result of metering and billing based on water usage. The actual change in water demand resulting from water meters and usage-based billing may be more or less than this assumption. The City plans to carefully monitor water usage patterns throughout the meter retrofit program. Because only a percentage of residential customers will be converted to usage-based billing in any single year, the potential revenue uncertainty is limited. This transition period also occurs during a period when the water utility has significant financial reserves, which could buffer the impact of any unanticipated revenue shortfalls, should they occur.

Meter Retrofit Installation Charges

In 2004, the State Legislature passed and the Governor signed into law Assembly Bill 2572 requiring metering of all water services by January 1, 2025. The Lodi City Council voted to accelerate compliance with State Law in May 2007 to promote water conservation and provide more equitable billing based on actual usage than the current flat rate water billing system.

To equitably share in the cost of the water meter retrofit program and to meet the funding requirements of an accelerated program, the City has determined that property owners receiving a retrofit meter should pay for the estimated cost of their installation. To simplify the program installation charges ranging from \$300 to \$1,200 have been proposed.

The water meter retrofit program also includes the replacement of small diameter, aged, and/or backyard water mains, as required. This portion of the program is to be

funded through existing available financial reserves, as well as current water rate revenue. Approximately one-third of the program cost is to be funded through the water meter installation charges and about two-thirds through these other sources.

If the City Council does not adopt the proposed water meter installation charges, or adopts charges in some other form, it could impact the timing and duration of the water meter retrofit program, but would not directly impact the City's ability to meet other financial obligations, including the obligation to repay long-term debt.

Water Impact Mitigation Fees

Once the City has entered into a contract for the construction of the new WTP (and therefore has a firm estimate for the cost of the project) the water impact mitigation fee will be updated. The water impact mitigation fee is the one-time fee charged to new development for capacity in the water system. At present, the fee reflects the estimated cost of distribution system capacity. However the updated fee will also reflect the cost of treatment capacity. Preliminary estimates indicate that the updated fee may be on the order of \$8,000 for a standard connection (3/4" meter) to the water system. It is anticipated that a majority of fee revenue will be used to help meet debt service obligations, although the City is not dependent on fee revenue to meet these obligations.

SECTION II. WATER SYSTEM FINANCIAL PLAN

This section of the report describes the financial plan for the City's water utility. The ten-year financial plan is used to determine annual water rate revenue requirements, and to develop the strategy for meeting current and future financial obligations. The annual rate revenue requirement is the amount of revenue needed from water rates to cover estimated operating, maintenance, debt service, and capital program costs with consideration of other revenues and financial reserves.

FUND STRUCTURE AND CASH FLOWS

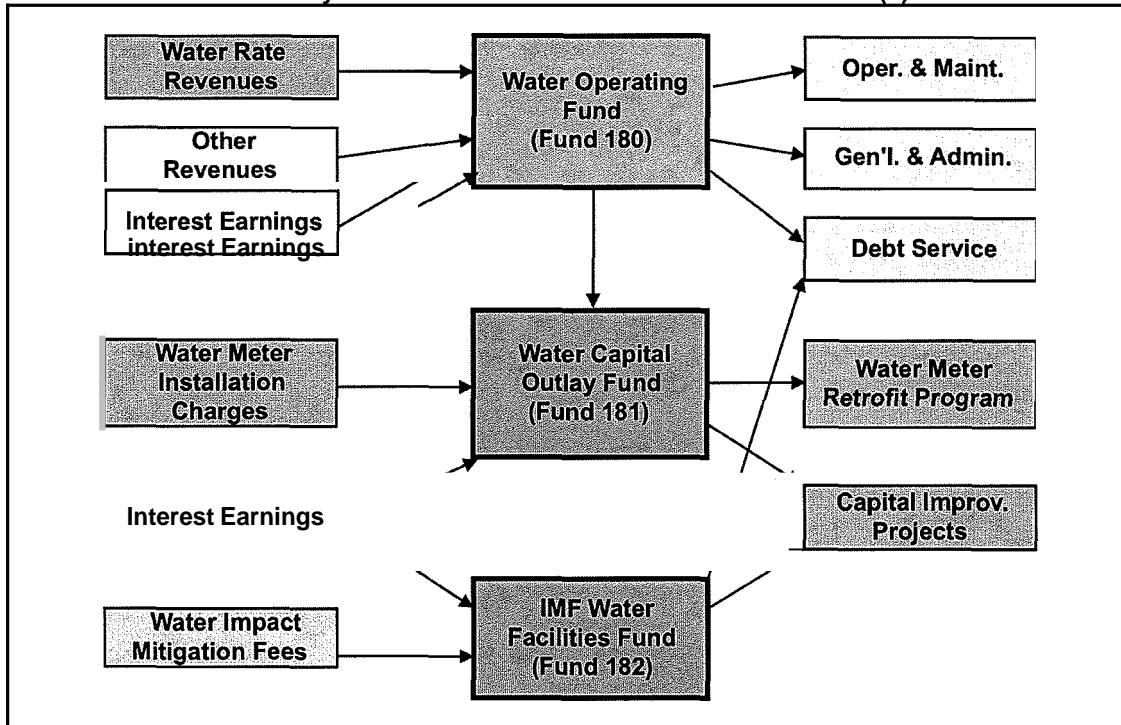
The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements, and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the water utility.

The financial plan model is based on the fund, reserve, and account structure currently used by the City. **Exhibit II-1** is a schematic diagram of the funds/reserves and major cash flows associated with the financial plan model. While financial plan analyses included consideration for anticipated costs related to PCE/TCE monitoring and remediation, the funds designated to track these costs have been excluded from the analyses presented in this report.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets, presented at the end of this report, which model annual cash flows through the water utility from one year to the next. The fund/reserve structure is comprised of

- **Operating Fund** - The Operating Fund is the primary fund within the water utility. Most of the water system's revenues, including water rate revenues, flow into the Operating Fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. Funds are also transferred from the Operating Fund to the Water Capital Outlay Fund to help pay for capital projects intended to rehabilitate and upgrade facilities.
 - o **Operating Reserve** - The City currently does not have a formal policy goal to maintain Operating Reserves within the Operating Fund. For planning purposes an Operating Reserve equal to **25** percent of annual operating and maintenance costs, excluding debt service, is used as a target minimum balance. The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The financial plan analyses estimate the balance in the Operating Fund to exceed the Operating Reserve target in most years through the planning period.

Exhibit 114
City of Lodi -- Water Utility
Water System Fund/Reserve Structures and Cash Flows (1)



Notes:

(1) Excludes funds and cash flows related to PCE/TCE monitoring and remediation.

- o *Available Fund Balance* - The balance in the Operating Fund in excess of the target amount for the Operating Reserves is shown in the financial plan as Available Fund Balance. After all other obligations are met the available balance is used to offset rate increases. The available balance might also be used to prepay long-term debt obligations at some point in the future when it is permissible to do so.
- **Water Capital Outlay Fund** - The Water Capital Outlay Fund is used to account for water meter installation charge revenues and transfers from the Operating Fund for capital project expenditures. Capital projects funded from this fund are intended to rehabilitate, upgrade, and expand the water system to meet current and future needs of the water utility. The financial plan model generally seeks to maintain a positive balance in the Water Capital Outlay Fund while also covering the costs of planned capital improvement projects.
- **IMF Water Facilities Fund** - The Impact Mitigation Fee Water Facilities Fund is used to account for water impact mitigation fee revenues and related expenditures. Water impact mitigation fee revenue can be used for capital projects that provide capacity in the water system, as well as associated debt service. It is anticipated that a majority of water impact fee revenues will be utilized for debt service payments related to financing the new WTP.

FINANCIAL PLAN ASSUMPTIONS

The financial plan model was updated to reflect the FY 10-11 budget and financial conditions as of the beginning of the fiscal year. The financial plan also reflects the City's debt service obligations and capital improvement program, as identified by City staff, during the ten-year planning period.

The process used to develop the financial plan involved estimating future revenues and expenditures based on growth projections, inflation and interest rates, anticipated capital improvement needs, and other information. The City does not have formal estimates of future operating and maintenance costs, and capital improvement needs are defined at a planning level. The financial plan is based on the best available information and assumptions are believed to be reasonable; however, no assurance can be provided as to the accuracy and completeness of the estimates.

Primary assumptions reflected in financial plan analyses include:

- *Inflation Rates* - The following inflation rates are used for escalating costs to future years:
 - o General inflation = 3.0%
 - o Labor inflation = 3.4%
 - o Utility inflation = 4.5%
 - o Construction inflation = 3.5%
- *Interest Rates* - Interest earned on fund/reserve balances is estimated to be 0.5 percent in FY 10-11 and increasing by 0.5 percent each year until reaching 3.5 percent in FY 16-17. Interest is calculated based on the average of beginning of year and end of year balances in each fund. Interest accrues to each fund. The City also pays interest on outstanding long-term debt obligations. The interest payments on outstanding debt are those contained in existing contracts and repayment schedules.
- *Growth Projections* - The City of Lodi is currently experiencing very little new growth and development due to the current economic climate. The financial plan model presented herein reflects modest growth in the customer base equivalent to 50 new homes (0.2 percent) per year. This is a conservative assumption from a financial perspective, and believed reasonable considering the current economic situation.
- *Operation and Maintenance Costs* - The financial plan model is based on current operating and maintenance costs as reflected in the FY 10-11 operating budget. For future years, these costs are assumed to increase based on the inflation factors listed above. In addition to the inflationary adjustment, the financial plan reflects engineering estimates of the cost to operate the new water treatment plant, once it comes on line in FY 12-13.
- *Existing Debt Obligations* - The City plans to pay off an existing 1991 CSDW loan on October 1, 2010, prior to issuing new debt for the WTP. The payoff amount is about \$1,433,000. The water utility has no other long-term debt obligations at this time.

- *New Debt Obligations* - The City was considering plans to issue up to \$49 million in water revenue bonds to financing construction of the new WTP. The issue may include tax-exempt bonds or a combination of tax-exempt bonds and taxable Build America Bonds (BABs). The BABs are eligible to receive a 35 percent interest subsidy from the federal government. For the analyses presented herein \$39.535 million (par) of tax-exempt bonds providing \$36.5 million for the water treatment plant construction is assumed. Using current interest rates plus 25 basis points, principal and interest payments are currently estimated to be about \$2.65 million annually.
- *New Water Treatment Plant* - A new 10MGD water treatment plant is planned to begin construction before the end of 2010 and become operational in FY 12-13. The estimated cost to construct the WTP, including necessary equipment and furnishings, is about \$36.5 million. This estimate is based on construction bids and other costs related to the project.
- *Pay-As-You-Go Capital Improvement Program* - The water utility's capital improvement plan primarily includes the water meter retrofit program. Other miscellaneous water system improvements average several hundred thousand dollars per year during the planning period. The financial plan indicates capacity to fund a larger capital improvement program once the meter retrofit program is completed.
- *Transfers from the Operations Fund to the Capital Outlay Fund* - The financial plan model includes annual transfers from the Water Operations Fund to the Water Capital Outlay Fund. Transfers are limited by the need to maintain a minimum balance in the Water Operations Fund equal to at least the target Operating Reserve. Annual transfers in FY 10-11 are for \$3 million and gradually increase to \$5.6 million in FY 14-15 and then are reduced.
- *PCE/TCE Monitoring and Remediation Costs* - The financial plan exhibits contained herein do not reflect the anticipated capital and O&M costs associated with monitoring and remediation of groundwater for PCE/TCE. As of June 30, 2010, the City had about \$18 million in restricted reserves intended for PCE/TCE purposes and these reserves are believed to be sufficient for program costs through at least 2020.

WATER RATE REVENUE ESTIMATES

The estimates of annual water rate revenues reflected in the financial plan embody a number of assumptions regarding multiple factors influencing rate revenue. Future water rate revenue has been estimated based on consideration of the following factors:

- Recently adopted water rates reflecting a 2 percent increase effective in January 2011, as well as assumed annual inflationary adjustments of 3.5 percent per year beginning January 1, 2012
- Planned transition of single family residential customers from flat rate billing to water usage-based billing from 2011 through 2017, including estimated reduced water usage of 10 percent as customers pay for service based on usage, rather than flat rates

- Modest increases (0.2% per year) in the number of customer connections
- No rebound in water demand as a result of economic recovery.

As the City transitions single family customers to usage-based water rates, rate revenue will vary with changes in water demands. This issue was considered in the development of the rate structure for single family customers, and is described in greater detail in the next section. Because of (1) the gradual transition to usage-based billing, (2) the availability of financial reserves to serve as a buffer to fluctuating revenues, and (3) the ability to monitor water usage during the transition period, as well as adjust water rates as necessary, the water system does not appear to be at undo financial risk due to the water rate structure.

FINANCIAL PLAN FINDINGS AND CONCLUSIONS

The preceding portion of this section describes the basic framework and assumptions underlying the financial analyses. Specific findings and conclusions pertaining to the water utility are presented below, beginning with a description of the current situation.

At present, in FY 10-11, the City's water utility has:

- Cash reserves of about \$14 million comprised of the Operating Reserve and monies intended for the water meter retrofit program.
- Annual operating and maintenance costs of about \$5.8 million. In addition, the City plans to pay off the existing 1991 CSDW loan in FY 10-11 for about \$1.4 million.
- Planned capital improvement program costs of about \$4.9 million, primarily for the water meter retrofit program.
- Current year water rate revenues totaling about \$11.7 million and additional water utility revenues of about \$2.2 million. This additional amount includes an estimated \$1.5 million in potential lump sum payments from the proposed water meter installation charges.

In July 2010, the City Council approved a 2.0 percent overall increase in water rates effective in January 2011. In addition, the Council authorized annual rate adjustments for inflation (based on changes in the *Engineering News Record's* 20-Cities Construction Cost Index). Annual changes in this index have averaged 3.5 percent over the past ten years, and the financial plan assumes 3.5 percent annual rate adjustments each January beginning in 2012. In addition to available reserves, these rate adjustments are estimated to provide sufficient revenue to meet all anticipated financial needs of the water utility throughout the planning period.

Exhibit 11-2 provides a summary of the revenues, operating and maintenance expenses, debt service obligations, and planned capital improvement program expenditures of the water utility during the planning period through FY 19-20. In general, the City's financial strategy for the water system includes:

Exhibit 11-2
City of Lodi -- Water Utility
Water System Financial Plan Summary

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
	Est. Actual	Budget									
Customer Growth		0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Water Rate Increases (1)		2.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Revenues											
Water Sales (2)	11,715,748	11,796,000	12,158,000	12,609,000	13,068,000	13,552,000	14,054,000	14,575,000	15,154,000	15,715,000	16,296,000
Investment Income	103,641	71,950	136,000	175,000	162,000	79,000	14,000	119,000	277,000	425,000	559,000
Water Impact Mitigation Fees (3)	1,669	271,480	414,000	429,000	444,000	459,000	475,000	492,000	509,000	527,000	545,000
Meter Retrofit Installation Charges (4)		1,453,000	1,570,000	1,570,000	1,570,000	1,570,000	1,570,000	1,570,000	1,570,000		
Other Revenues (5)	39,565	325,000	348,000	265,000	273,000	281,000	289,000	297,000	305,000	314,000	323,000
Total Revenues	11,860,623	13,917,430	14,626,000	15,048,000	15,517,000	15,941,000	16,402,000	17,053,000	17,815,000	16,981,000	17,723,000
Operating Expenses											
Personnel Services (6)	1,325,536	1,403,580	1,452,000	1,488,000	1,539,000	1,592,000	1,645,000	1,702,000	1,760,000	1,820,000	1,883,000
Utilities (7)	733,653	721,150	753,000	787,000	823,000	860,000	898,000	938,000	981,000	1,025,000	1,071,000
Supplies, Matls., Services & Other (8)	2,550,028	2,600,910	2,680,000	2,680,000	2,761,000	2,843,000	2,929,000	3,016,000	3,106,000	3,200,000	3,297,000
WTP Oper. & Maint. (net increase) (9)			1,822,000	1,538,000	1,590,000	1,644,000	1,700,000	1,758,000	1,818,000	1,880,000	1,880,000
Transfer to General Fund (for COS)	1,060,122	1,060,120	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000
Total Operating Expenses	5,669,339	5,785,760	5,945,000	7,837,000	7,721,000	7,945,000	8,176,000	8,416,000	8,665,000	8,923,000	9,191,000
Net Revenue Available for Debt Service	6,191,284	8,131,670	8,681,000	7,211,000	7,796,000	7,996,000	8,226,000	8,637,000	9,150,000	8,058,000	8,532,000
Debt Service											
1991 CSDW Note Payable (10)											
Principal	175,450	1,409,301	-	-	-	-	-	-	-	-	-
Interest	52,562	24,094	-	-	-	-	-	-	-	-	-
Est. 2010 WTP Financing (w/BABs) (11)			695,000	710,000	735,000	760,000	785,000	815,000	850,000	885,000	925,000
Principal		1,305,592	1,958,388	1,942,750	1,919,675	1,895,788	1,871,088	1,837,725	1,803,088	1,766,963	1,729,350
Interest											
Total	228,012	2,738,987	2,653,388	2,652,750	2,654,675	2,655,788	2,656,088	2,652,725	2,653,088	2,651,963	2,654,350
DS Coverage (w/ IMF)	27.15	2.97	3.27	2.72	2.94	3.01	3.10	3.26	3.45	3.04	3.21
DS Coverage (w/o IMF)	27.15	2.87	3.12	2.56	2.77	2.84	2.92	3.07	3.26	2.84	3.01
DS Coverage (w/o IMF or MRICs)	27.15	2.34	2.52	1.96	2.18	2.25	2.33	2.48	2.67	2.84	3.01
Capital Improvement Program (12)											
Meter Retrofit Program	2,932,000	4,073,000	6,694,000	7,662,000	8,947,000	11,039,000	4,846,000				-
Other Water System Improvements		1,083,000	180,000	197,000	210,000	218,000	285,000	479,000	2,786,000	514,000	2,985,000
Water Enterprise Fund (13)											
Beginning Cash Balance		14,093,090	14,329,773	13,483,385	10,182,635	6,166,960	250,172	689,084	6,194,359	9,905,271	14,797,308
Ending Cash Balance	14,093,090	14,329,773	13,483,385	10,182,635	6,166,960	250,172	689,084	6,194,359	9,905,271	14,797,308	17,689,958

Notes:

- (1) The City Council approved a 2% rate increase on July 21, 2010 to be implemented January 1, 2011, as well as adjustments for inflation each January beginning in 2012 (see narrative for details).
- (2) See narrative for an explanation of the factors affecting estimates of future water sales revenue.
- (3) See narrative for an explanation of estimates of future water impact mitigation fee revenue.
- (4) See narrative for an explanation of meter retrofit installation charges and the estimated revenues.
- (5) Includes rent, sales of City property, discounts, reimbursements, revenue-other, damage to property, water tap fees, DBCP reimbursements, and operating transfers in.
- (6) Personnel costs assumed to generally escalate at 3.4% per year.
- (7) Utility costs assumed to generally escalate at 4.5% per year.
- (8) Materials, supplies, services, and other costs assumed to generally escalate at 3.0% per year.
- (9) Based on information from Water Treatment Facility Staffing Assessment dated August 5, 2010 prepared by HDR.
- (10) The 1991 CSDW Note Payable is to be paid off from reserves prior to new debt issuance.
- (11) Debt service estimates on the 2010 WTP financing using \$39.535 million in tax-exempt bonds provided by Stone & Youngberg, LLC, as of September 21, 2010.
- (12) Construction of the new WTP is not reflected here and is assumed to be fully funded from proceeds of the 2010 WTP financing.
- (13) Does not include approximately \$18 million (as of 6/30/2010) in restricted funds for use in PCE/TCE monitoring and remediation.

- Use of existing financial reserves to maintain an operating reserve as well as fund a portion of the water main replacements, which are part of the water meter retrofit program
- Use of current and approved future water rate revenues to cover all operating and maintenance expenses, debt service obligations, and a portion of the water main replacement, which are part of the water meter retrofit program
- Financing of the construction of the new WTP with proceeds of the 2010 water revenue bond debt issuance
- Funding of retrofit meter installations through imposition of water meter installation charges to be paid by customers receiving retrofit meters
- Updating water impact mitigation fees to reflect the cost of capacity in the new WTP, as well as distribution system capacity, with revenues being used to cover a portion of annual debt service on the WTP financing, as well as improvements to the water system.

At this time, it appears that future water rate increases could be limited to annual inflationary adjustments as already approved by the City Council. Fund/reserve balances are estimated to reach a low point at the end of FY 14-15, and then rebound above the minimum operating reserve target upon completion of the water meter retrofit program. Because the City has total control over the timing and pace of the water meter retrofit program, phases of the program can be delayed if cash reserves approach an unacceptable low point. Toward the end of the ten-year planning period the water utility may accumulate additional reserves, which could be used to prepay a portion of the debt issued in 2010 to finance the WTP. Early prepayment may be allowed ten years after debt issuance.

Exhibits in **Appendix A**, at the end of this report, provide additional financial plan details, including revenues, expenses, cash flows, and balances for each of the primary water system funds (Funds 180,181, and 182).

SECTION 111: WATER RATES AND CHARGES

This section of the report describes approved and proposed water rates and charges necessary to meet water system financial obligations through the ten-year financial planning period. Included is a discussion of approved usage-based water rates for single family customers, as well as the planned strategy for converting flat rate customers to usage-based water rates as water meters are installed. This section also describes plans for establishing the water meter installation charges (needed to help pay for the accelerated water meter retrofit program), as well as plans to update the water impact mitigation fee.

CURRENT WATER RATES

The City of Lodi currently has a system of flat water rates for single family and multi-family residential customers based on the number of bedrooms in each dwelling. A water usage-based rate structure exists for non-residential customers, which are predominately metered. The usage-based structure includes a fixed service charge based on the size of the water meter and a uniform water rate applied to each unit of water used. These rates were last revised in January 2008.

California statutes (adopted in 2004 with **AB 2572**) require the City to begin billing all metered customers based on usage-based water rates beginning in 2011. Recognizing the need to inform customers of this change, as well as prepare customers for usage-based billing, in December 2009 the City Council adopted "advisory" usage-based water rates for single family customers. The advisory rates include a fixed service charge based on meter size and a three-tier water rate structure.

Exhibit III-1 summarizes the current water rate schedules, including the advisory rates used for informational and comparative billing purposes. Exhibit III-1 also shows the water rates that will be effective January 1, 2011, as described below.

RECENTLY APPROVED NEW WATER RATES

On July 21, 2010, the City Council adopted Resolution No. 2010-123 that set usage-based and flat water rates for residential, commercial, and industrial customers.

Resolution No. 2010-123 did the following:

- Imposed a 2 percent overall increase to existing flat (residential) and usage-based (non-residential) water rates effective January 1, 2011.
- Adopted a three-tier usage-based water rate structure for single family residential customers to be implemented beginning January 1, 2011 for single family residential customers with water meters (approximately 3,000 of 16,480 accounts).

Exhibit 111-1
City of Lodi -- Water Utility
Current and Recently Approved Water Rates

Current and Recently Approved Rates				
		Current (1)	Jan. 2011 (2)	
Percent Increase -->		2.0%		
Flat Rates (\$/month)				
Single Family Residential Unit (\$/month)				
1 Bedroom	\$	27.98	\$	28.54
2 Bedroom	\$	33.61	\$	34.28
3 Bedroom	\$	40.28	\$	41.09
4 Bedroom	\$	48.40	\$	49.37
5 Bedroom	\$	58.06	\$	59.22
6 Bedroom	\$	69.67	\$	71.06
7 Bedroom	\$	83.58	\$	85.25
Multi-Family Residential Unit (\$/month)				
1 Bedroom	\$	24.02	\$	24.50
2 Bedroom	\$	28.81	\$	29.39
3 Bedroom	\$	34.57	\$	35.26
Metered Water Rates				
Service Charge (\$/month)				
Single Family Residential (3)				
Up to 3/4" Meter	\$	22.25	\$	22.70
1" Meter	\$	36.15	\$	36.85
1 1/2" Meter	\$	70.60	\$	72.00
2" Meter	\$	112.10	\$	114.35
Multi-Family and Non-Residential (4)				
5/8" Meter	\$	25.64	\$	22.70
3/4" Meter	\$	28.17	\$	22.70
1" Meter	\$	42.27	\$	36.85
1 1/2" Meter	\$	56.35	\$	57.50
2" Meter	\$	70.45	\$	71.85
3" Meter	\$	98.63	\$	100.60
4" Meter	\$	126.80	\$	129.35
6" Meter	\$	183.16	\$	186.80
8" Meter	\$	239.48	\$	244.30
10" Meter	\$	295.83	\$	301.75
Water Usage Rates (\$/CCF)				
Single Family Residential (3)				
Tier 1 - 0 to 10 CCF/month	\$	0.86	\$	0.88
Tier 2 - 11 to 50 CCF/month	\$	1.29	\$	1.32
Tier 3 - Over 50 CCF/month	\$	1.71	\$	1.74
Multi-Family and Non-Residential (4)				
All Water Usage	\$	0.789	\$	0.88

Notes:

(1) Revised July 1, 2008.

(2) Approved by Resolution No. 2010-123 on July 21, 2010.

(3) Current revenue neutral rates were approved for comparative billing purposes only.

(4) New multi-family and non-residential rates improve equity with single family water rates.

- Approved a water rate adjustment index using the *Engineering News Record's* 20-Cities Construction Cost Index for annual adjustments to water rates each January 1 beginning in 2012. This action is consistent with a similar action affecting wastewater rates adopted in 2009. The ENR index better reflects the combined inflationary effects of personnel, materials, and energy costs on the total operations of the water utility.
- Changed the multi-family and nonresidential usage-based rate structure for meter sizes 1 inch and smaller to establish parity with the residential customers.

The Proposition 218 process was followed and notifications were sent to property owners and utility customers 45 days prior to the public hearing on July 21, 2010. Protests to the proposed water rates totaled a small fraction of 1 percent of the customer base and were insufficient to prevent the City from adopting the water rates.

TRANSITION TO USAGE-BASED WATER RATES FOR SINGLE FAMILY CUSTOMERS

In compliance with California statutes, the City will begin transitioning single family residential customers with water meters from flat water rates to usage-based water rates in January 2011. At that time, approximately 3,000 of 16,840 single family customers will be converted to usage-based rates. It is estimated that all single family residential customers will be transitioned to usage-based water rates by January 2017. Prior to converting any customer to usage-based rates, the City will provide the customer with actual water usage data and information regarding how the customer's bill may be affected with the change in billing.

The new usage-based water rate structure for single family customers includes a fixed service charge based on the size of the water meter, and a three-tier usage rate structure intended to help encourage water conservation. Approximately 50 percent of the single family residential usage-based water rate revenues are anticipated to be generated from fixed service charges and 50 percent from usage charges.

The calculation of usage-based single family water rates was developed with water usage data from approximately 850 metered accounts with usage histories in excess of 12 months. The City plans to closely monitor actual water usage and water rate revenues as customers begin being billed on usage-based rates. No assurances can be made, however, that actual water rate revenues will be as projected. The City Council has the authority to change the water rates and rate structures, if needed, to ensure revenue adequacy. The City's transition strategy to usage-based billing for residential customers is similar to other communities within California that are impacted by similar statutory requirements.

The usage-based rates were calculated to be revenue neutral with existing residential flat water rates. This calculation assumes that residential water usage would decrease by 10 percent as a result of the change in billing. Because the transition to usage-based billing will occur over approximately seven years, the potential revenue uncertainty will be limited to a small percentage of the revenue base. As the City gains experience in monitoring customers' water usage characteristics under usage-based billing it will be able to refine revenue estimates based on accumulated knowledge.

The City will also be changing the manner in which single family residential customers will be billed for wastewater services. Single family residential wastewater rates will be determined based on each customer's winter water usage (period when irrigation demand is minimal). Usage-based wastewater rates were adopted by the City Council in July 2010, but are not anticipated to be implemented until January 2012. Usage-based wastewater rates may also have an impact on customer's water demand.

Requirements for water conservation rates as specified by the California Urban Water Conservation Council require water rates to generate at least 70 percent of revenue from usage charges, and no more than 30 percent from fixed service charges. However, the City has four years from the time the meter retrofit program is completed to fully comply with this requirement. It is anticipated that as the City gains a better understanding of water usage characteristics that a gradual transition to meet the 70 percent threshold will begin. This might occur by implementing rate increases only in the water usage charges and holding fixed service charges constant over time.

METER RETROFIT INSTALLATION CHARGES

In order to provide additional funding for the planned accelerated water meter retrofit program, the City is considering imposing a meter retrofit installation charge on all customers requiring water meters. Lump sum charges varying between \$300 and \$1,200 have been proposed by City staff. Under the proposal, customers would have the option of paying the charge in a lump sum, or paying in monthly installments, in a charge on the utility bill, over seven years at an estimated interest rate of 1.5 percent.

The water meter installation charges are expected to be brought to the City Council for approval in early 2011. Under the proposal, lump sum payments would be due by July 1, 2011, and monthly charges for those not making lump sum payments would be imposed beginning in July 2011.

The financial plan presented herein reflects both the revenues from the anticipated water meter installation charges (including estimates of lump sum payments and monthly installment payments), and the costs of the meter retrofit program. Because a portion of the meter retrofit program entails replacing existing undersized, aged, and/or back yard mains, a portion of the program is also funded through existing water rate revenues and available reserves.

The City's ability to meet obligations related to the WTP financing is not dependent upon adoption of the proposed water meter installation charges. If the water meter installation charges are not adopted (or are adopted in some other form), the impact would be limited to the timing and duration of the meter installation program.

WATER IMPACT MITIGATION FEES

The current water impact mitigation fees are based on density and parcel size. The fee for a typical low-density single family residence (5 dwelling units per acre) is about \$1,078 for single family residential connection. The City intends to update the water impact mitigation fee to reflect the cost of the new water treatment plant, as well as other water system improvements, once the City has accepted a firm bid for construction of the treatment plant. Preliminary estimates indicate that new water impact mitigation fees may

be about \$8,000 for a single family residential connection. It is anticipated that the City Council will adopt new water impact mitigation fees in late 2011, when the City considers updating a impact fees.

Financial plan analyses assume the equivalent of 50 new single family residential connections to the water system each year (about 0.2% annual growth). Two large commercial projects are anticipated to move forward in FY 10-11, and are equivalent to about 50 single family residences. Most, if not all, water impact mitigation fee revenue is intended to be directed towards debt service payment on the 2010 water revenue bonds used to finance the WTP.

APPENDIX A: WATER FINANCIAL PLAN DETAILS

Exhibit A-1
City of Lodi -- Water Utility
Financial Plan Summary

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
	Est. Actual	Budget									
Overall Water Rate Increases -->		2.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
		Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018	Jan. 2019	Jan. 2020
WATER OPERATING FUND (180)											
Beginning Balance	2,071,982	3,300,906	3,911,699	4,360,311	3,014,561	1,972,886	89,098	483,010	2,835,285	3,596,197	4,211,234
Revenues											
Water Sales	8,739,854	11,796,000	12,158,000	12,609,000	13,068,000	13,552,000	14,054,000	14,575,000	15,154,000	15,715,000	16,296,000
Interest Earnings	25,266	14,540	41,000	55,000	49,000	25,000	8,000	57,000	111,000	134,000	162,000
Other Revenues	39,565	325,000	348,000	265,000	273,000	281,000	289,000	297,000	305,000	314,000	323,000
Transfer from Fund 182 for DS			215,000	444,000	459,000	475,000	492,000	509,000	527,000	545,000	
Total Revenues	8,804,685	12,135,540	12,547,000	13,144,000	13,834,000	14,317,000	14,826,000	15,421,000	16,079,000	16,690,000	17,326,000
Expenditures											
Transfer Out to Gen'l Fund (COS)	1,060,122	1,060,120	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000
Transfer Out to Wtr Cap Outlay	2,319,445	3,000,000	3,500,000	4,000,000	4,500,000	5,600,000	3,600,000	2,000,000	4,000,000	4,500,000	4,500,000
Transfer Out to PCE-TCE Fund											
Personnel Services	1,325,536	1,403,580	1,452,000	1,488,000	1,539,000	1,592,000	1,645,000	1,702,000	1,760,000	1,820,000	1,883,000
Utilities, Commun., & Transport.	733,653	721,150	753,000	787,000	823,000	860,000	898,000	938,000	981,000	1,025,000	1,071,000
Supplies, Mat'ls., Services & Other	2,550,028	2,600,910	2,680,000	2,680,000	2,761,000	2,843,000	2,924,000	3,016,000	3,106,000	3,200,000	3,297,000
SWTF Oper. & Maint. (net)			1,822,000	1,538,000	1,590,000			1,700,000	1,758,000	1,818,000	1,880,000
Debt Service											
1991 CSDW Loan Payments	228,012	1,433,395									
Est. Net 2010 Rev. Bond Payments		1,305,592	2,653,388	2,652,750	2,654,675	2,655,788	2,656,088	2,652,725	2,653,088	2,651,963	2,654,350
Total Expenditures	8,216,796	11,524,747	12,098,388	14,489,750	14,875,675	16,200,788	14,432,088	13,068,725	15,318,088	16,074,963	16,345,350
Ending Balance	2,660,000	3,911,699	4,360,311	3,014,561	1,972,886	89,098	483,010	2,835,285	3,596,197	4,211,234	5,191,884
Operating Reserve (25%)	1,417,000	1,446,000	1,486,000	1,959,000	1,930,000	1,986,000	2,044,000	2,104,000	2,166,000	2,231,000	2,298,000
Available Balance	1,243,000	2,465,699	2,874,311	1,055,561	42,886	(1,896,902)	(1,560,990)	731,285	1,430,197	1,980,234	2,893,884
DS Coverage	14.10	2.97	3.27	2.72	2.94	3.01	3.10	3.26	3.45	3.04	3.21

**Exhibit A-1 -- Continued
City of Lodi -- Water Utility
Financial Plan Summary**

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
	Est. Actual	Budget									
WATER CAPITAL OUTLAY (181)											
Beginning Balance	11,839,529	11,287,790	10,892,200	9,188,200	7,020,200	4,043,200	6,200	46,200	3,193,200	6,137,200	10,408,200
Revenues											
Operating Transfers In	2,319,445	3,000,000	3,500,000	4,000,000	4,500,000	5,600,000	3,600,000	2,000,000	4,000,000	4,500,000	4,500,000
Interest Earnings	78,375	57,410	100,000	121,000	110,000	50,000	1,000	56,000	160,000	285,000	391,000
Retrofit Meter Install. Charge		1,453,000	1,570,000	1,570,000	1,570,000	1,570,000	1,570,000	1,570,000	1,570,000		
Debt Proceeds											
Total Revenues	2,397,820	4,510,410	5,170,000	5,691,000	6,180,000	7,220,000	5,171,000	3,626,000	5,730,000	4,785,000	4,891,000
Expenditures											
Water Meter/Main Install. Project	2,932,000	4,073,000	6,694,000	7,662,000	8,947,000	11,039,000	4,846,000				
Water Taps		75,000	78,000	80,000	83,000	86,000	89,000	92,000	95,000	99,000	102,000
Miscellaneous Water Mains		50,000	52,000	54,000	55,000	57,000	59,000	61,000	64,000	66,000	68,000
Commercial Meter Replacements		10,000	10,000	5,000	6,000	6,000	6,000	6,000	6,000	7,000	7,000
Valve Exercising Program		20,000	21,000	21,000	22,000	23,000	24,000	25,000	25,000	26,000	27,000
UWMP Update		50,000					59,000				
Meter Fixed Network		500,000									
MSC Paving		75,000									
Vehicles/Equipment		53,000	19,000	37,000	44,000	46,000	48,000	49,000	51,000	53,000	55,000
Unspecified Capital Projects								246,000	2,545,000	263,000	2,726,000
Total Expenditures	2,932,000	4,906,000	6,874,000	7,859,000	9,157,000	11,257,000	5,131,000	479,000	2,786,000	514,000	2,985,000
Ending Balance	11,305,000	10,892,200	9,188,200	7,020,200	4,043,200	6,200	46,200	3,193,200	6,137,200	10,408,200	12,314,200
IMF WATER FACILITIES (182)											
Beginning Balance	(442,341)	(495,6063)	(474,126)	(65,126)	147,874	150,874	154,874	159,874	165,874	171,874	177,874
Revenues											
Water Impact Mitigation Fees	1,669	271,480	414,000	429,000	444,000	459,000	475,000	492,000	509,000	527,000	545,000
Interest Earnings			(5,000)	(1,000)	3,000	4,000	5,000	6,000	6,000	6,000	6,000
Total Revenues	1,669	271,480	409,000	428,000	447,000	463,000	480,000	498,000	515,000	533,000	551,000
Expenditures											
Well #27 - Pump, Motor & Site Impr.		250,000									
MSC Rehab/Expansion	25,000										
Transfer to Fund 180 for Debt Service				215,000	444,000	459,000	475,000	492,000	509,000	527,000	545,000
Total Expenditures	25,000	250,000		215,000	444,000	459,000	475,000	492,000	509,000	527,000	545,000
Ending Balance	(466,000)	(474,126)	(65,126)	147,874	150,874	154,874	159,874	165,874	171,874	177,874	183,874
Owed Fund 180 for DS		870,000	2,639,000	4,193,000	5,519,000	6,831,000	8,127,000	9,403,000	10,663,000	11,904,000	13,129,000

Exhibit A-2
City of Lodi -- Water Utility
Financial Plan Assumptions

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Financial Assumptions											
General Inflation		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Labor Inflation		3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Material/Energy Inflation		4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Construction Inflation		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest Earnings		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	3.5%	3.5%	3.5%
Customer Account Assumptions											
No. of DUs/Accounts	23,335	23,356	23,406	23,456	23,506	23,556	23,606	23,656	23,706	23,756	23,806
No. of 3/4" Eq. Mtrs.	25,383	25,404	25,454	25,504	25,554	25,604	25,654	25,704	25,754	25,804	25,854
No. of New Connections	21	50	50	50	50	50	50	50	50	50	50
Customer Growth Rate	0.08%	0.20%	0.20%	0.20%	0.20%	0.20%	0.19%	0.19%	0.19%	0.19%	0.19%
Water Mitigation Impact Fee \$	1,078	\$ 8,000	\$ 8,280	\$ 8,570	\$ 8,870	\$ 9,180	\$ 9,500	\$ 9,830	\$ 10,170	\$ 10,530	\$ 10,900
2010 Water Revenue Bond Financing Assumptions											
Par Amount	\$39,535,000										
All-In True Interest Cost	5.22%										
Term	30 years										
Issuance Costs	\$ 550,245										
Debt Service Reserve	\$ 2,656,088										
Net Proceeds	\$36,500,000										

APPENDIX C

CITY OF LODI

The 2010 Bonds are not secured by the faith and credit or the taxing power of the City. The economic and financial data regarding the City of Lodi and the County of San Joaquin set forth in this section are included for information purposes only, to give a more complete description of the service area of the City's System.

General

The City of Lodi, California ("Lodi" or the "City") was incorporated as a General Law City on December 6, 1906. The City is located in the San Joaquin Valley between Stockton, 10 miles to the south, and Sacramento, 35 miles to the north, and adjacent to State Route 99. The city is located on a main line of the Union Pacific Railroad and is within 5 miles of Interstate 5. The City population is 63,549 (as of Jan. 1, 2010 estimate by the California Department of Finance) and is contained in an area of approximately 13 square miles. The City has grown steadily since incorporation in 1906 and in 2006 approved development proposals that will add 3,509 dwelling units in newly annexed areas to the south and west. No new homes have yet been built in those areas. The City's growth is provided for in both the General Plan and the City's growth-control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

The City adopted a new General Plan in 2010, projecting a population of 99,500 in approximately 2030. The City plans to continue growing in a compact manner, within and contiguous to the existing boundaries to make the best use of the City's existing infrastructure.

The City provides a wide range of municipal services, including public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), community development and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

The City has a broad-based economy that, unlike many cities in the San Joaquin Valley, does not simply depend upon agriculture, one reason the City's unemployment rate generally tracks the state average and is roughly 2 percent to 4 percent less than San Joaquin County's. The region's growing reputation for its fine wines has boosted its image as a tourist destination, and the city's downtown, enhanced by a \$25 million public and private investment, is a model for other mid-sized cities seeking to revitalize their downtowns. As it transitions to an entertainment, white-linen dining and wine-tasting destination, downtown Lodi serves as a hub for the 75 wineries located within a 10-mile radius.

The City has a diversified industrial base, ranging from plastics industries that are industry leaders in producing pipes for irrigation and drainage, and injection-molded products, to Cottage Bakery, which sells specialty baked goods and frozen dough to customers nationwide. Still, agriculture plays a large role in the city's economy. In addition to wines, processed foods, nuts, fruit, vegetables and milk are major commodities of the Lodi area and supply the materials for local food processors and packagers. These products support the operations of General Mills and private-label cannery Pacific Coast Producers, among other companies. A variety of Lodi businesses serve the surrounding farms and vineyards with irrigation supplies and specialty machinery.

In addition, the City has a wide range of other financially sound businesses. These companies range in size from a few dozen to hundreds of employees and produce a wide variety of services and products. New retail businesses are planning 2011 openings in the Reynolds Ranch development in southeast Lodi, including Costco and The Home Depot. The shopping center is adjacent to Blue Shield of California's claims processing center that opened in late 2008 and houses approximately 900 employees.

Municipal Government

City Council. All powers of the City are vested in the City Council which is empowered to perform all duties of and obligations of the City as imposed by State law. The City has a five-member City Council composed of members elected at large. Each council member is elected for four years with staggering terms.

Biographies of the members of the City Council are set forth below:

PHIL KATZAKIAN, MAYOR, was elected to the Lodi City Council in November 2006. Mr. Katzakian is a real estate agent and former president and co-owner of Lodi Printing, founded in 1924 and owned by the Katzakian family since 1948. Mr. Katzakian attended San Joaquin Delta College and California State University, Sacramento, before being hired by Lodi Vintners, a Lodi-area winery. He spent five years with the company, eventually becoming General Manager, before leaving to open an automotive repair business.

SUSAN HITCHCOCK, MAYOR PRO TEMPORE, was elected to the Lodi City Council in November 1998 and re-elected in 2002 and 2006. Ms. Hitchcock received a Bachelor of Science in Business Administration from California State University, Sacramento, in 1979 and a teaching credential in 1991. She also received a Master of Arts in School Administration and an Administrative Services credential from University of the Pacific in 1997. Ms. Hitchcock worked as a commercial loan officer for eight years. She has been employed by the Lodi Unified School District since 1991 and is currently the Principal of Clairmont Elementary School.

JOANNE MOUNCE, COUNCIL MEMBER, was elected to the Lodi City Council in November 2004 and re-elected in 2008. Ms. Mounce received an Accounting Certificate from South Lake Tahoe Community College and her Associates Degree with Honors from San Joaquin Delta College. With 26 years of accounting experience, Ms. Mounce currently works with Dougherty CPAs, Inc., a Stockton certified public accountant firm.

BOB JOHNSON, COUNCIL MEMBER, was elected to the Lodi City Council in November 2004 and re-elected in 2008. Mr. Johnson attained the rank of captain in the United States Marine Corps and, following his military service, was employed for more than 20 years in the financial industry in a variety of marketing and management positions in New York, Los Angeles, and San Francisco. He was a self-employed real estate appraiser before his retirement. Mr. Johnson received a Bachelor of Arts degree from St. Bonaventure University.

LARRY D. HANSEN, COUNCIL MEMBER, was elected to the Lodi City Council in November 2002 and re-elected in November 2006. Mr. Hansen is a United States Navy veteran and obtained his Master of Public Administration degree in 1993 from California State University, Stanislaus. Mr. Hansen had a 30-year career with the City of Lodi Police Department, serving as Chief of Police from 1993 to 2000.

Investment Portfolio

All funds of the City, including surplus funds of the System, are invested by the City in accordance with the investment guidelines of the California Government Code (Sections 53601 and 53635) and the City's Investment Policy, which is presented annually to the City Council for approval.

Investment Policy. Pursuant to the Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow determinations. The City's cash management system is designed to monitor and forecast expenditures and revenue accurately in order to enable the City to invest funds to the fullest extent possible.

Idle cash management and investment transactions are the responsibility of the Internal Services Director/City Treasurer. The Investment Policy, as adopted by the City Council on November 18, 2009, permits investment in the following: U.S. Treasury obligations (bills, notes and bonds); U.S. Government Agency securities and instrumentalities; bankers acceptances; certificates of deposit; negotiable certificates of deposit; commercial paper; California State Local Agency Investment Fund; passbook deposits; mutual funds; and medium term notes. The Investment Policy provides that safety is given the highest priority, followed by liquidity and yield. Investments are selected to achieve a "market average" rate of return, or the annual rate of return on the one-year U.S. Treasury Bill.

The Investment Policy may be changed at any time at the discretion of the City Council (subject to the State of California law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State of California law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the City with respect to investments will not change. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Investment Results as of June 30, 2010. A summary of the City's pooled investment portfolio as of June 30,2010 is set forth below.

**CITY OF LODI
Investment Portfolio Summary
(as of June 30,2010)**

<u>Type of Investment</u>	<u>Amount</u>	<u>Percent of Total</u>
Local Agency Investment Fund (City)	\$33,250,511	42.5%
LAIF (Lodi Public Improvement Corporation)	24,064,641	30.7
Certificates of Deposit	500,000	0.6
Passbook/Checking Accounts	<u>20,472,019</u>	<u>26.2</u>
Total	\$78,287,171	100.0%

Source: City of Lodi.

Population

The following chart indicates the growth in the population of the City since 2000.

**CITY OF LODI
POPULATION
For Years 2000 through 2010**

<u>Year (as of January 1)</u>	<u>Population</u>
2000	56,512
2001	58,353
2002	59,835
2003	60,951
2004	61,848
2005	62,520
2006	62,828
2007	63,395
2008	63,316
2009	63,164
2010	63,549

Source: State of California, Department of Finance.

Employment in the City was 27,900 in 2002 and 28,100 in 2009, representing a 0.7% increase over the seven-year period. Over the same time period, the unemployment rate in Lodi ranged from a low of 5.5% in 2006 to 11.8% in 2009. Statewide unemployment rates ranged from 4.9% in 2006 and 11.4% in 2009.

CITY OF LODI, SAN JOAQUIN COUNTY AND CALIFORNIA
Unemployment rates, annual averages, Calendar Years 2005-2010

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>
Lodi	5.9	5.5	6.0	7.8	11.8	12.6
San Joaquin County	7.9	7.4	8.1	10.3	15.4	16.6
California	5.4	4.9	5.3	7.2	11.4	12.4

Source: State of California, Employment Development Department.

⁽¹⁾ Through August 31, 2010.

Major Employers

There are several manufacturing plants in the community producing a wide variety of products: cereals, food mixes, wines, rubber products, foundry items, recreational vehicle components, electronic substrates, plastic piping and injection molded products. In addition, a number of small businesses are located within the City. The main businesses in the City, however, are food processing and plastics.

The largest employers in Lodi as of August 30, 2010 are as follows:

CITY OF LODI
LARGEST EMPLOYERS

Employer	Business	Number of Employees
Lodi Unified School District	Education	2,699
Lodi Memorial Hospital	Health Care	1,400
Blue Shield	Insurance Claims Processing	850
Cottage Bakery	Baked Goods	552
General Mills	Cereals and Food Mixes	489
City of Lodi	Government	405
Pacific Coast Producers	Fruit Canning	400-1,200
Farmers & Merchants Bank	Banking	330
Wal-Mart	Retail	270
Target	Retail	197
ArmorStruxx	Armor Plate Manufacturing	130
Valley Towing Products	Trailer Hitch Manufacturing	130

Source: City of Lodi, City Manager's Office.

Building Permit Activity

The following table shows the value of building permits issued in the City between 2006 and 2010.

CITY OF LODI BUILDING PERMIT VALUATION for Calendar Years 2005 through 2010

<u>Type of Permit</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>
Residential:					
New Single-Dwelling	20,199,883	4,631,976	1,837,512	734,783	595,647
New Multi-Dwelling	0	1,134,559	0	0	0
Additions/Alterations	<u>4,742,419</u>	<u>2,906,158</u>	<u>1,659,378</u>	<u>2,323,010</u>	<u>1,183,787</u>
Total Residential	24,942,302	8,672,693	3,496,890	3,057,793	1,779,434
Non Residential:					
New Commercial	6,174,219	5,508,296	10,267,563	942,077	0
New Industrial	660,000	496,455	0	0	0
Other	4,980,828	1,755,534	1,828,749	1,813,849	1,512,144
Additions/Alterations	8,646,425	2,833,350	9,699,507	1,862,030	<u>1,575,592</u>
Total Non Residential	<u>20,461,472</u>	<u>10,593,635</u>	<u>21,795,819</u>	<u>4,617,956</u>	<u>3,087,736</u>
Total Valuation	<u>45,403,774</u>	<u>19,266,328</u>	<u>25,292,709</u>	<u>7,675,749</u>	<u>4,867,170</u>

Source: Construction Industry Research Board
(1) Through August 31, 2010

Taxable Sales

The following table indicates taxable transactions in the City by type of business during the fiscal years 2005 through the third quarter of 2009.

CITY OF LODI TAXABLE TRANSACTIONS BY TYPE OF BUSINESS for Calendar Years 2005 through 2009 (in Thousands of Dollars)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009⁽¹⁾</u>
Retail Stores:					
Apparel Stores	\$ 11,470	\$ 11,989	\$ 12,774	\$ 15,341	\$ 4,591
General Merchandise	150,767	147,118	144,252	131,757	24,381
Food Stores	59,615	55,507	57,101	51,196	11,345
Eating/Drinking Places	78,756	83,191	84,753	81,370	19,137
Furniture/Appliances	18,457	15,412	13,434	13,683	3,208
Building Materials	92,242	83,070	68,954	55,678	13,509
Auto Dealers/Supplies	203,707	191,920	182,395	135,866	22,607
Service Stations	51,171	60,976	65,697	85,670	21,317
Other Retail Stores	63,874	67,673	58,249	51,722	12,963
Retail Store Totals	730,059	716,856	687,609	622,282	133,057
All other Outlets	<u>\$159,768</u>	<u>\$172,404</u>	<u>\$167,463</u>	<u>\$154,277</u>	<u>\$ 31,966</u>
Total All Outlets	\$889,827	\$889,260	\$855,072	\$776,559	\$165,023

(1) Through September 30, 2009
Source: California State Board of Equalization

Income

Total personal income in San Joaquin County increased by **47.7%** between 2000 and **2008**. The following tables summarize personal income for San Joaquin County for 2000 through **2008**.

PERSONAL INCOME San Joaquin County 2000-2008 (Dollars in Thousands)

<u>Year</u>	<u>San Joaquin County</u>	<u>Annual Percent Change</u>
2000	\$14,280,516	9.3%
2001	14,997,883	5.0
2002	15,672,221	4.5
2003	16,587,814	5.8
2004	17,635,474	6.3
2005	18,300,337	3.8
2006	19,475,554	6.4
2007	20,634,651	6.0
2008	21,097,089	2.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following tables summarizes per capita personal income for San Joaquin County, California and the United States for 2000-2008.

PER CAPITA PERSONAL INCOME San Joaquin County, State of California and the United States 2000-2008

<u>Year</u>	<u>San Joaquin County</u>	<u>California</u>	<u>United States</u>
2000	\$25,143	\$33,398	\$30,318
2001	25,377	33,890	31,145
2002	25,761	34,045	31,462
2003	26,530	34,977	32,271
2004	27,514	36,904	33,881
2005	27,963	38,767	35,424
2006	29,513	41,567	37,698
2007	31,018	43,402	39,392
2008	31,547	43,852	40,166

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Agriculture

Lodi is a worldwide agricultural shipping center for the San Joaquin Valley. The surrounding prime agricultural land is the nation's largest producer of premium wine grapes. Lodi businesses process and ship local produce ranging from grapes to cherries and asparagus.

Community Facilities

The City has a central library, one community center, 26 parks and five specific use facilities, covering 263 developed acres and 110 undeveloped acres, and 16 playgrounds. Lodi Lake Park is connected to the Mokelumne River and features boating, fishing, beach swimming, boat rentals, nature walks, group picnic sites, an RV park and the Discovery Nature Center. Micke Grove Park, a San Joaquin County park, is located between Lodi and Stockton. The park is home to a Japanese garden, the San Joaquin Historical Museum, amusement park and rides, picnic areas and a five-acre zoo featuring mammals, birds, reptiles and invertebrates.

Community recreation programs cover a wide range of interests and activities including youth and adult sports and special interest classes, youth-at-risk programs, aquatics, special events, camps/clinics and tournaments.

Lodi Memorial Hospital offers a 270-bed, nonprofit, independent, acute-care hospital to the residents of the City and surrounding community. Its mission is to provide quality medical care, education and support services to the community. Two hospital campuses and six satellite clinics are used to provide a variety of inpatient, outpatient, urgent, emergency and primary care services. The hospital recently completed a \$200-million expansion that remodeled rooms and added a 90-bed wing.

Housing

The City of Lodi housing market offers a blend of older neighborhoods and newer executive developments. According to the U.S. Census, 29.4 percent of Lodi owner-occupied homes are held without a mortgage, compared to 23.4 percent countywide.

CITY OF LODI Median-Priced Home (For August of Year)

2003	\$274,000
2004	326,000
2005	397,000
2006	480,000
2007	418,000
2008	300,000
2009	180,000
2010	180,000

Source: Coldwell Banker Grupe-TrendGraphix

Education

The Lodi Unified School District provides K-12 and special education programs. The area also is served by several private and parochial schools. The University of the Pacific, San Joaquin Delta College, California State University, Stanislaus-Stockton campus, and the University of San Francisco satellite center are all within a 20-minute drive of the city. The University of California, Davis and California State University, Sacramento, and the University of Southern California satellite center are within an hour's drive of the City. Additionally, San Joaquin Delta College is developing plans to build a satellite learning center in the city.

Transportation

The City **is** served by Interstate **5** and State highways 12 and 99 and is located on the main line of the Union Pacific Railroad. Lodi has Amtrak passenger rail service and local, regional and national **bus** service. A deep-water seaport and airport with commercial passenger travel are located approximately 15 miles south in Stockton.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of September 1, 2010 is set forth below.

CITY OF LODI ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT as of September 1, 2010

CITY OF LODI

2010-11 Assessed Valuation: \$4,926,129,727

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 9/1/10</u>
San Joaquin Community College District	8.664%	\$12,436,359
Lodi Unified School District	37.030	37,498,430
City of Lodi 1915 Act Bonds	100.	320,000
TOTAL, OVERLAPPING TAX AND ASSESSMENT DEBT		\$50,254,789
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Joaquin County Certificates of Participation	9.703%	\$18,022,352
Lodi Unified School District Certificates of Participation	37.030	18,359,474
City of Lodi Certificates of Participation	100.	22,265,000 (2)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$58,646,826
 COMBINED TOTAL DEBT		 \$108,901,615 (3)

(1) Based on 2009-10 ratios.

(2) Excludes issue to be sold.

(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Combined Direct Debt (\$22,265,000) _____ 0.45%

Total Overlapping Tax and Assessment Debt1.02%

Combined Total Debt 2.21%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Assessed Valuation and Tax Collections

Taxes are levied for each Fiscal Year on taxable real and personal property that is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien that is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to the delinquent taxes on property of the unsecured roll, and an additional penalty of 1.5% per month begins to accrue commencing on November 1 of the Fiscal Year. Collections of delinquent unsecured taxes is the responsibility of the County of San Joaquin using the several means legally available to it.

CITY OF LODI
ASSESSED VALUATIONS
For Fiscal Years 2004 through 2009
(In thousands)

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value
2003-2004	1,027,462	2,549,860	248,472	3,825,794	212,102	3,613,692
2004-2005	1,107,776	2,739,061	249,812	4,096,649	217,077	3,879,572
2005-2006	1,226,293	2,989,575	258,035	4,473,903	220,590	4,253,313
2006-2007	1,431,203	3,327,453	285,340	5,043,996	229,049	4,814,947
2007-2008	1,537,554	3,503,186	289,770	5,330,510	243,259	5,087,251
2008-2009	1,562,729	3,577,741	281,915	5,422,385	265,154	5,157,231

Source: City of Lodi audited financial statements.

In 1993, the City made an agreement with San Joaquin County to participate in the Teeter Plan pursuant to provisions of Sections 4701-4717 of the California Revenue and Taxation Code. The Teeter Plan is an alternative method of apportioning property tax money. Pursuant to those sections the accounts of all political subdivisions that levy taxes on the County tax rolls are credited with 100% of their respective tax levies regardless of actual payments and delinquencies. The cities covered under the plan receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

Ten Largest Locally Secured Taxpayers

The following table shows the ten largest locally secured taxpayers of the City for the Fiscal year ended June 30, 2009.

CITY OF LODI
TEN LARGEST LOCALLY SECURED TAXPAYERS
Fiscal Year Ended June 30, 2009

	Name	Assessed Valuation
1.	Lodi Memorial Hospital Assoc.	\$168,303,000
2.	General Mills, Inc.	\$152,676,000
3.	Pacific Coast Producers	86,146,000
4.	Calif. Physicians Service Corp. (Blue Shield)	\$42,615,000
5.	Cottage Bakery Inc.	24,653,000
6.	Certainfeed Corp.	19,431,000
7.	Archer Daniels Midland	19,098,000
8.	Thule Hitch Systems	18,932,000
9.	Dart Container Corp.	18,814,000
10.	Lowe's	14,153,000
	TOTAL,	<u>\$564,821,000</u>

Source: San Joaquin County Assessor's Office.

APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30,2009

The Audited Financial Statements contained in this Appendix include information relating to various funds of the City, in addition to the funds relating to the Water System. Notwithstanding anything to the contrary contained therein, the obligation of the city with respect to the Series 2010 Bonds is a limited obligation of the City, payable solely from the sources specified in the Official Statement.

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC's book entry system has been obtained from DTC and the City and the Underwriter take no responsibility for the completeness or accuracy thereof. The City and the Underwriter cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Holders (a) payments of interest, principal or premium, if any, with respect to the Series 2010 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2010 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2010 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010 Bond will be issued for each maturity and series of the Series 2010 Bonds, each in the aggregate principal amount of such maturity and series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to

receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds ; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2010 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2010 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by

an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

APPENDIX F
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX G

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX H
PROPOSED FORM OF OPINION OF BOND COUNSEL

LODI PUBLIC FINANCING AUTHORITY

\$ _____
2010 Water Revenue Bonds,
Series A

\$ _____
2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds – Direct
Payment)

BOND PURCHASE AGREEMENT

October __, 2010

Board of Directors
Lodi Public Financing Authority
Lodi, California

City Council
City of Lodi
Lodi, California

Ladies and Gentlemen:

The undersigned, Stone & Youngberg LLC (the “Underwriter”) relating to the Authority’s \$ _____ 2010 Water Revenue Bonds, Series A (the “Series 2010A Bonds”) and \$ _____ 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds – Direct Payment) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “Series 2010 Bonds”), hereby offers to enter into this Bond Purchase Agreement (the “Purchase Agreement”) with you, the Lodi Public Financing Authority (the “Authority”) and you, the City of Lodi (the “City”), which, upon the Authority’s and the City’s acceptance of this offer, will be binding upon the Authority, the City and the Underwriter. This offer is made subject to acceptance by each of you prior to 11:59 P.M., California time, on the date hereof. If this offer is not so accepted, this offer will be subject to withdrawal by the Underwriter upon notice delivered to you at any time prior to acceptance. Upon acceptance, this Purchase Agreement shall be in full force and effect in accordance with its terms and shall be binding upon the Authority, the City and the Underwriters. All capitalized terms used herein not otherwise defined herein shall have the respective meanings ascribed thereto in the Official Statement and the Indenture (each, as herein defined).

1. Purchase, Sale and Delivery of the Series 2010 Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase and the Authority agrees to sell and deliver to the Underwriter all (but not less than all) of the Series 2010 Bonds.

(b) The Series 2010 Bonds shall be issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, consisting of Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6584 (the “Act”) and an Indenture of Trust, dated as of October 1, 2010, between the Authority and The Bank of New York Mellon

* Preliminary; subject to change.

Trust Company, N.A., as trustee (the "Trustee") (the "Indenture"). The Series 2010 Bonds shall be dated the Closing Date (as hereinafter defined). The Series 2010 Bonds shall have the maturities and bear interest at the rates per annum and at the prices and yields shown on Exhibit A hereto. The Series 2010 Bonds shall be substantially in the form described in, and shall be issued and secured under, the provisions of the Indenture. The Series 2010 Bonds are special, limited obligations of the Authority payable solely from Authority Revenues and all amounts (including proceeds of the sale of the Series 2010 Bonds) held in any fund or account established under this Indenture (subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein). "Authority Revenues" consist primarily of installment payments (the "2010 Installment Payments") received by the Trustee from the City pursuant to an Installment Sale Agreement, dated as of October 1, 2010 (the "2010 Installment Sale Agreement") between the City and the Authority. The Series 2010 Bonds are being issued (i) pay the cost of a new water treatment facility (the "Treatment Facility") to treat water to be provided within the service area of the City (the "Water System"); (ii) fund a deposit in the Reserve Account in an amount equal to the Reserve Requirement; (iii) pay costs of issuance.

(c) The aggregate purchase price for the Series 2010 Bonds will be \$_____, which is equal to (i) the purchase price of the Series 2010A Bonds of \$_____ (consisting of the aggregate principal amount of the Series 2010A Bonds less an Underwriter's discount of \$_____ and less net original issue discount of \$_____) and (ii) the purchase price of the Series 2010B Bonds of \$_____ (consisting of the aggregate principal amount of the Series 2010B Bonds less an Underwriter's discount of \$_____).

(d) At 8:00 o'clock A.M., California time, on September __, 2010, or at such other time or on such other date as we mutually agree upon (the "Closing Date"), the Authority and the City will, subject to the terms and conditions hereof, cause to be delivered to the Underwriter, at a location or locations to be designated by the Underwriter in New York, New York, the Series 2010 Bonds (delivered through the book entry system of The Depository Trust Company), duly executed, and at the offices of Jones Hall, A Professional Law Corporation, San Francisco, California, or at such other place as shall have been mutually agreed upon by the Authority and the Underwriter, the other documents mentioned herein. The Underwriter will accept such delivery and pay the Purchase Price in immediately available funds (such delivery and payment being herein referred to as the "Closing") to the order of the Trustee.

(e) The Underwriter agrees to make a bona fide public offering of the Series 2010 Bonds at the initial offering prices set forth in the Official Statement (as hereinafter defined), which prices may be changed from time to time by the Underwriter after such offering.

(f) The City will undertake, pursuant to a Continuing Disclosure Certificate, dated as of the Closing Date (the "Continuing Disclosure Certificate") to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement (as hereinafter defined) and will also be set forth in the Official Statement. The City has not failed to comply in the last five years in all material respects with any previous undertakings with regard to Rule 15c2-12 (as defined below) to provide annual reports or notices of material events.

2. Use and Preparation of Official Statement. The Authority and the City hereby ratify, confirm and approve of the use and distribution by the Underwriters prior to the date hereof of the Preliminary Official Statement dated October __, 2010 relating to the Series 2010 Bonds (which,

together with all appendices thereto, is referred to herein as the "Preliminary Official Statement"). The Authority and the City have deemed final the Preliminary Official Statement as of its date for purposes of Rule 15c2-12 promulgated by the Securities Exchange Act of 1934 ("Rule 15c2-12"), as amended, except for the omission of such information as is specified in Rule 15c2-12(b)(1). The Authority and the City hereby agree to deliver or cause to be delivered to the Underwriter, within seven (7) business days of the date hereof, conformed copies of the final Official Statement, dated the date hereof (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements to such Official Statement as have been approved by the Authority, the City and the Underwriter) (the "Official Statement") in sufficient quantity to enable the Underwriters to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The Authority and the City hereby approve of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Series 2010 Bonds. At the time of or prior to the Closing Date, the Underwriter shall file a copy of the Official Statement with the Municipal Securities Rulemaking Board.

3. Representations, Warranties and Agreements of the Authority. The Authority hereby represents, warrants and agrees with the Underwriter as follows:

(a) The Authority is, and will be on the Closing Date, a joint powers entity of the State of California organized and operating pursuant to the laws of the State of California with the full power and authority to issue the Series 2010 Bonds pursuant to the Act, to execute and deliver the Official Statement and to enter into this Purchase Agreement, the Indenture, and the Installment Sale Agreement;

(b) By all necessary official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has duly approved, ratified and confirmed the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in the Indenture, the Installment Sale Agreement and this Purchase Agreement and the consummation by it of all other transactions contemplated by the Official Statement, the Indenture, the Installment Sale Agreement and this Purchase Agreement;

(c) The Authority is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default in any material respect under any such instrument; and the issuance of the Series 2010 Bonds and the execution and delivery of the Indenture, the Installment Sale Agreement, this Purchase Agreement and the Official Statement, and compliance with the provisions on the Authority's part contained herein and therein, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument;

(d) To the best knowledge of the Authority after reasonable investigation, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Authority in any material respect affecting the existence of the Authority or the titles of its officers to their respective offices or affecting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2010 Bonds or contesting or affecting, as to the Authority, the validity or enforceability of the Series 2010 Bonds, the Installment Sale Agreement, the Indenture or this Purchase Agreement or contesting the powers of the Authority or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Indenture, the Installment Sale Agreement or this Purchase Agreement;

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Authority of its obligations in connection with the issuance of the Series 2010 Bonds under the Indenture have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Series 2010 Bonds; and all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Authority of its obligations under the Indenture, the Installment Sale Agreement or this Purchase Agreement have been duly obtained;

(f) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Series 2010 Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Series 2010 Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Series 2010 Bonds; provided, that in no event shall the Authority be required to take any action which would subject it to service of process in any jurisdiction in which it is not now so subject;

(g) As of the date thereof, the Preliminary Official Statement did not, except as revised by the Official Statement, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein relating to the Authority, in the light of the circumstances under which they were made, not misleading;

(h) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the Series 2010 Bonds, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, relating to the Authority in the light of the circumstances under which they were made, not misleading;

(i) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, an event occurs which might or would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority will notify the Underwriter, and, if in the opinion of the Authority, the Underwriter or their counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will forthwith prepare and furnish to the Underwriter (at the expense of the Authority) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, the Authority will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(j) If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (i) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(k) After the Closing up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, the Authority will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter;

(l) As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the Series 2010 Bonds shall mean the earlier of (i) the Closing Date unless the Authority and the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date, or (ii) the date on which the End of the Underwriting Period for the Series 2010 Bonds has occurred under Rule 15c2-12; provided, that the Authority and the City may treat as the End of the Underwriting Period for the Series 2010 Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period;

(m) The Authority will apply, or cause the application of, the proceeds of the Series 2010 Bonds in accordance with the Installment Sale Agreement and the Indenture; and

(n) Any certificate signed by any authorized official of the Authority, and delivered to the Underwriter in connection with the execution and delivery of the Series 2010 Bonds, shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

4. Representations, Warranties and Agreements of the City. The City hereby represents, warrants and agrees with the Underwriter as follows:

(a) The City is, and will be on the Closing Date, a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State of California (the "State") with the full power and authority to execute and deliver the Official Statement and to enter into this Purchase Agreement, the Continuing Disclosure Certificate and the Installment Sale Agreement;

(b) By all necessary official action of the City prior to or concurrently with the acceptance hereof, the City has duly approved, ratified and confirmed the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in, the Continuing Disclosure Certificate, the Installment Sale Agreement and this Purchase Agreement and the consummation by it of all other transactions contemplated by the Official Statement, the Continuing Disclosure Certificate, the Installment Sale Agreement and this Purchase Agreement;

(c) The City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default in any material respect under any such instrument; and the execution and delivery of the Continuing Disclosure Certificate, the Installment Sale Agreement, this Purchase Agreement and the Official Statement, and compliance with the provisions on the City's part contained herein and therein, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument;

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best knowledge of the City after reasonable investigation, threatened against the City in any material respect affecting the existence of the City or the titles of its officers to their respective offices or contesting or affecting, as to the City, the validity or enforceability of the Continuing Disclosure Certificate, the Installment Sale Agreement or this Purchase Agreement or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Continuing Disclosure Certificate, the Installment Sale Agreement or this Purchase Agreement;

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the

matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations in connection with the issuance of the Series 2010 Bonds have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Series 2010 Bonds; and all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations under the Continuing Disclosure Certificate, the Installment Sale Agreement or this Purchase Agreement have been duly obtained (including to the extent required, any governmental permits and approvals, including demonstration of compliance with the California Environmental Quality Act, as amended, Division 13 of the California Public Resources Code (“CEQA”));

(f) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Series 2010 Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; and (ii) to determine the eligibility of the Series 2010 Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Series 2010 Bonds; provided, that in no event shall the City be required to take any action which would subject it to service of process in any jurisdiction in which it is not now so subject;

(g) As of the date thereof, the Preliminary Official Statement did not, except as revised by the Official Statement (excluding therefrom information about DTC or the book-entry only system contained in the Preliminary Official Statement), contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(h) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period for the Series 2010 Bonds, the Official Statement (excluding therefrom information about DTC or the book-entry only system contained in the Official Statement), did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, an event occurs which might or would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City will notify the Underwriter, and, if in the opinion of the City, the Underwriter or their counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish to the Underwriter (at the expense of the City) a reasonable number of copies of an amendment or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or supplement the official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after

the End of the Underwriting Period for the Series 2010 Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(j) If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (i) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, the portions of the Official Statement so supplemented or amended (excluding therefrom information about DTC or the book-entry only system), will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(k) After the Closing up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2010 Bonds, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter;

(l) The Audited Financial Statements of the City for the Fiscal Year ended June 30, 2009, as contained in Appendix D to the Official Statement, fairly and accurately present the financial condition of the City as of such date and there has not been, nor does the City anticipate that there will be, any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the City;

(m) Since June 30, 2009, except as referred to in or as contemplated by the Official Statement, with respect to its Water System, the City has not incurred any financial liabilities, direct or contingent, or entered into any transactions and there has not been any adverse change in the condition, financial or physical, of the Water System, in any case that would materially and adversely affect the ability of the City to meet its obligations under the Installment Sale Agreement;

(n) Between the date of this Purchase Agreement and the Closing Date, except as described in the Official Statement, the City will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities direct or contingent, payable from Revenues (as defined in the Installment Sale Agreement), nor does the City reasonably anticipate that there will be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the City; and

(o) Any certificate signed by any authorized official of the City, and delivered to the Underwriter in connection with the execution and delivery of the Series 2010 Bonds, shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

5. Conditions to the Obligations of the Underwriter. The Underwriter hereby enters into this Purchase Agreement in reliance upon the representations and warranties of the Authority and the City contained herein and the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Authority and the City of their obligations both on and as of the date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Purchase Agreement to purchase, to accept delivery of and to pay

for the Series 2010 Bonds shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties of the Authority and the City contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the Authority and the City made in any certificate or other document furnished pursuant to the provisions hereof, to the performance by the Authority and the City of their respective obligations to be performed hereunder and under such documents and instruments at or prior to the Closing Date, and also shall be subject to the following additional conditions:

(a) The Underwriter shall receive, within seven (7) business days of the date hereof, copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Underwriter), in such reasonable quantity as the Underwriter shall have requested;

(b) The representations and warranties of the Authority and the City contained herein shall be true and correct on the date hereof and on the Closing Date, as if made on and at the Closing;

(c) At the Closing, the Indenture, the Installment Sale Agreement, the Continuing Disclosure Certificate and this Purchase Agreement shall have been duly authorized, executed and delivered by the respective parties thereto, and the Official Statement shall have been duly authorized, executed and delivered by the Authority and the City, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to in writing by the Underwriter, and shall be in full force and effect; and there shall be in full force and effect such resolution or resolutions of the Board of Directors of the Authority and the Board of Directors of the City as, in the opinion of Jones Hall, A Professional Law Corporation, Bond Counsel to the Authority ("Bond Counsel"), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(d) Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth in the Official Statement, of the Series 2010 Bonds shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the Authority and the City terminating the obligation of the Underwriter to accept delivery of and make any payment for the Series 2010 Bonds), by reason of any of the following:

(1) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee

of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority, with respect to federal or State of California taxation upon revenues or other income of the general character to be derived by the Authority or upon interest received on obligations of the general character of the Series **2010** Bonds which, in the reasonable judgment of the Underwriter, may have the purpose or effect, directly or indirectly, of affecting the tax status of the Authority, its property or income, its securities (including the Series **2010** Bonds) or the interest thereon, or any tax exemption granted or authorized by State of California legislation or, in the reasonable judgment of the Underwriter, materially and adversely affecting the market for the Series **2010** Bonds or the market price generally of obligations of the general character of the Series **2010** Bonds;

(2) legislation enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter shall have been made or issued to the effect that obligations of the general character of the Series **2010** Bonds, or the Series 2010 Bonds, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, ~~as~~ amended, or that the Indenture is not exempt from qualification under the Trust Indenture Act of **1939**, as amended;

(3) the declaration of war or engagement or significant escalation in major military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(4) the declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange;

(5) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Series **2010** Bonds or obligations of the general character of the Series **2010** Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(6) ~~an~~ order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Series **2010** Bonds, or the issuance, offering or sale of the Series **2010** Bonds, including any or all underlying obligations, as contemplated hereby or by

the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(7) the withdrawal or downgrading or placement on credit watch with negative outlook of any rating of the Series 2010 Bonds by a national rating agency; or

(8) any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(e) At or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) The Preliminary Official Statement, the Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the Authority and the City;

(2) Copies of the Indenture, the Installment Sale Agreement, this Purchase Agreement and the Continuing Disclosure Certificate, each duly executed and delivered by the respective parties thereto;

(3) The approving opinion of Bond Counsel, dated the Closing Date and addressed to the Authority, in substantially the form attached to the Official Statement as Appendix I thereto, and a letter of such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it;

(4) The supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit B.

(5) The opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit C;

(6) The opinion of the City Attorney, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit D;

(7) The opinion of counsel to the Trustee, dated the Closing Date and addressed to the Authority, the City and the Underwriter, to the effect that (i) the Trustee has duly authorized, executed and delivered the Indenture; and (ii) the Indenture constitutes a legally valid and binding obligation of the Trustee, enforceable against the Trustee in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity;

(8) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the Authority satisfactory to the Underwriter, in form and substance

satisfactory to the Underwriter, to the effect that (i) the representations and warranties of the Authority contained in this Purchase Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) there is no action, suit, proceeding, inquiry or investigation pending or to the best knowledge of such official after reasonable investigation, threatened (a) to restrain or enjoin the execution, sale or delivery of any of the Series 2010 Bonds, (b) in any way affecting the validity of the Series 2010 Bonds, this Purchase Agreement, the Indenture, the Escrow Agreement or the Installment Sale Agreement, or (c) in any way contesting the existence or powers of the Authority; nor to the best knowledge of such official after reasonable investigation is there any basis for any such action, suit, proceeding, inquiry or investigation wherein an unfavorable decision, ruling or finding would make invalid or materially adversely affect the authorization, execution, delivery or performance by the Authority of the foregoing and (iii) no event affecting the Authority has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement relating to the Authority or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein relating to the Authority not misleading in any material respect;

(9) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the City satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that (i) the representations and warranties of the City contained in this Purchase Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) there is no action, suit, proceeding, inquiry or investigation pending or, to the best knowledge of such official, threatened (a) to restrain or enjoin payments under the Installment Sale Agreement, (b) in any way contesting or affecting the validity of the Continuing Disclosure Certificate, this Purchase Agreement or the Installment Sale Agreement, or (c) in any way contesting the existence or powers of the City; nor to the best knowledge of such official after reasonable investigation, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would make invalid or materially adversely affect the authorization, execution, delivery or performance by the City of the foregoing; (iii) no event has occurred since the date of the Official Statement (excluding therefrom information about DTC or the book-entry only system contained in the Official Statement) which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect; and (iv) since June 30, 2009, except as referred to in or as contemplated by the Official Statement, with respect to its Water System, the City has not incurred any financial liabilities, direct or contingent, or entered into any transactions and there has not been any adverse change in the condition, financial or physical, of the Water System, in any case that would materially and adversely affect the ability of the City to meet its obligations under the Installment Sale Agreement;

(10) A certificate, dated the Closing Date, signed by a duly authorized official of the Trustee, satisfactory in form and substance to the Underwriter, to the effect that: (i) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States of America; having the full power and being qualified to enter into and perform its duties under the Indenture; (ii) the Trustee is duly authorized to

enter into the Indenture; (iii) the execution and delivery of the Indenture and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or Blue Sky laws or regulations), nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Indenture; (iv) it has not been served with any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, nor is any such action, to the best of such official's knowledge after reasonable investigation, threatened against the Trustee, **as** such but not in its individual capacity, affecting the existence of the Trustee, or the titles of its officers to their respective offices, or seeking to prohibit, restrain or enjoin the collection of the funds to be applied to pay the principal, premium, if any, and interest with respect to the Series 2010 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Indenture; and (v) subject to the provisions of the Indenture and applicable law, the Trustee will apply the proceeds from the Series 2010 Bonds to the purposes specified in the Indenture;

(11) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture;

(12) Certified copies of the resolution of the Authority authorizing the execution and delivery of the Indenture, the Installment Sale Agreement, this Purchase Agreement and the Official Statement;

(13) Certified copies of the resolutions of the City authorizing the execution and delivery of the Installment Sale Agreement, the Continuing Disclosure Certificate, this Purchase Agreement and the Official Statement;

(14) A Tax Certificate with respect to the Series 2010 Bonds, together with Form 8038-G, in form satisfactory to Bond Counsel, signed by an appropriate officer of the City and the Authority;

(15) Evidence that the ratings on the Series 2010 Bonds as set forth in the Official Statement are in full force and effect **as** of the Closing Date;

(16) An opinion of Underwriters' Counsel, dated the Closing Date and addressed to the Underwriter, in form and substance acceptable to the Underwriter;

(17) **An** executed copy of the Consulting Engineer's Report;

(18) **A** certificate of the Consulting Engineer, executed by an authorized signatory of the Consulting Engineer and dated the Closing Date, to the effect that: (i) the

Consulting Engineer has been retained by the City to prepare the Consulting Engineer's Report (the "Report"); (ii) consent is given to the inclusion of the Report dated October __, 2010 as an appendix to the Preliminary Official Statement and to the inclusion of the Report dated October __, 2010 as an appendix to the Official Statement; (iii) the Consulting Engineer has expertise in the matters covered by the Report and acknowledges that the City has relied on such expertise in connection with the offering and sale of the Series 2010 Bonds; (iv) the conclusions set forth in the Reports are reasonable as of the respective dates of the Reports and subject to the information, assumptions, qualifications, and caveats disclosed in the Reports; (v) the Consulting Engineer is not aware of any plan, event, or circumstance occurring after October __, 2010 and prior to the date of this letter that would cause it believe that the conclusions set forth in the Report dated October __, 2010 are no longer reasonable; and (vi) the Consulting Engineer consents to the inclusion in the Preliminary Official Statement and the Official Statement of information from the Reports under the captions: "THE TREATMENT FACILITY" and the Consulting Engineer has reviewed and agreed that information was accurately excerpted from the Reports;

(19) **An** executed copy of the Rate Consultant's Report;

(20) A certificate of the Rate Consultant, executed by an authorized signatory of the Rate Consultant and dated the Closing Date, to the effect that: (i) the Rate Consultant has been retained by the City to prepare the Rate Consultant's Report (the "Report"); (ii) consent is given to the inclusion of the Report dated October __, 2010 as an appendix to the Preliminary Official Statement and to the inclusion of the Report dated October __, 2010 as an appendix to the Official Statement; (iii) the Rate Consultant has expertise in the matters covered by the Report and acknowledges that the City has relied on such expertise in connection with the offering and sale of the Series 2010 Bonds; (iv) the conclusions set forth in the Reports are reasonable as of the respective dates of the Reports and subject to the information, assumptions, qualifications, and caveats disclosed in the Reports; (v) the Rate Consultant is not aware of any plan, event, or circumstance occurring after October __, 2010 and prior to the date of this letter that would cause it believe that the conclusions set forth in the Report dated October __, 2010 are no longer reasonable; and (vi) the Rate Consultant consents to the inclusion in the Preliminary Official Statement and the Official Statement of information from the Reports under the captions: "THE WATER SYSTEM" and the Rate Consultant has reviewed and agreed that information was accurately excerpted from the Reports;

(21) Such additional legal opinions, certificates, proceedings, instruments, insurance policies or evidences thereof and other documents as the Underwriter or Bond Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations of the Authority and the City herein and of the statements and information contained in the Official Statement, and the due performance or satisfaction by the Authority and the City at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the Authority and the City in connection with the transactions contemplated hereby and by the Indenture and the Installment Sale Agreement.

If the Authority and the City shall be unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Agreement or if the Underwriter's obligations shall be terminated for any reason permitted herein, all obligations of the Underwriter hereunder may be terminated by the

Underwriter at, or at any time prior to, the Closing Date by written notice to the Authority and the City and neither the Underwriter nor the Authority or the City shall have any further obligations hereunder.

6. Expenses. All expenses and costs incident to the authorization, issuance, delivery and sale of the Series 2010 Bonds to the Underwriter, including the costs of printing of the Series 2010 Bonds, the Preliminary Official Statement and the Official Statement, the cost of duplicating the Indenture, the Installment Sale Agreement, the Continuing Disclosure Certificate, the fees of accountants, financial advisors, consultants and rating agencies, the initial fee of the Trustee and its counsel in connection with the issuance of the Series 2010 Bonds and the fees and expenses of Bond Counsel, THE Consulting Engineer, and the Rate Consultant shall be paid from the proceeds of the Series 2010 Bonds. In the event that the Series 2010 Bonds for any reason are not issued, or to the extent proceeds of the Series 2010 Bonds are insufficient or unavailable therefor, any fees, costs and expenses owed by the Authority or the City, which otherwise would have been paid from the proceeds of the Series 2010 Bonds, shall be paid by the Authority or the City. All out of pocket expenses of the Underwriter, including traveling and other expenses, the California Debt and Investment Advisory Commission fee and the fees and expenses of Underwriter's Counsel shall be paid by the Underwriter.

7. Notices. Any notice or other communication to be given under this Purchase Agreement may be given by delivering the same in writing to the respective parties at the following address:

Underwriter: Stone & Youngberg LLC
One Ferry Building
San Francisco, California 94111
Attention: Eileen Gallagher

Authority: Lodi Public Financing Authority
c/o the City of Lodi
221 West Pine Street
Lodi, CA 95241-1910

City: City of Lodi
221 West Pine Street
Lodi, CA 95241-1910

8. Survival of Representations and Warranties. The representations and warranties of the Authority and the City set forth in or made pursuant to this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Agreement and regardless of any investigations or statements as to the results thereof made by or on behalf of the Underwriters and regardless of delivery of and payment for the Series 2010 Bonds.

9. Effectiveness and Countermart Signatures. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by duly authorized officers of the Authority and the City and shall be valid and enforceable as of the time of such acceptance. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

10. Parties in Interest. This Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

11. Headings. The headings of the sections of this Purchase Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

[REMAINDER OF **PAGE** INTENTIONALLY LEFT BLANK]

12. Governing Law. This Purchase Agreement shall be construed in accordance with the laws of the State of California.

Very truly yours,

STONE & YOUNGBERG LLC
as Underwriter

By: _____
Authorized Signatory

ACCEPTED:

LODI PUBLIC FINANCING AUTHORITY

By: _____
Authorized Officer

CITY OF LODI

By: _____
Authorized Signatory

EXHIBIT A

MATURITY SCHEDULE

MATURITY SCHEDULE

\$ _____¹ Series 2010A Serial Bonds

<i><u>Maturity</u></i> <i><u>(June 1)</u></i>	<i><u>Principal</u></i> <i><u>Amount</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Yield</u></i>
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\$_____ . Y_o Series 2010A Term Bonds due June 1, 20__ - Yield: __. __%

\$_____ . Y_o Series 2010B Term Bonds due June 1, 20__ - Yield: __. __%

¹ Preliminary; subject to change.

THE SERIES 2010 BONDS REDEMPTION

EXHIBIT B

FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

City of Lodi
Lodi Public Financing Authority
Lodi, California

Stone & Youngberg LLC
San Francisco, California

SUPPLEMENTAL OPINION: Lodi Public Financing Authority
\$—— 2010 Water Revenue Bonds, Series A
\$—— 2010 Water Revenue Bonds, Series B (Federally
Taxable – Build America Bonds – Direct Payment)

Ladies and Gentlemen:

We have acted as bond counsel to the Lodi Public Financing Authority (the “Issuer”) in connection with the issuance by the Issuer of the above-referenced bonds (the “Bonds”), pursuant to Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Law”), and an Indenture of Trust, dated as of October 1, 2010, between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Indenture”). The Bonds were sold to Stone & Youngberg LLC, as underwriter (the “Underwriter”), pursuant to a Bond Purchase Agreement, dated _____, 20__ (the “Purchase Contract”), among the Underwriter, the City of Lodi (the “City”) and the Issuer. This letter is being delivered in our capacity as bond counsel to the Issuer and not as counsel to the underwriter addressee.

We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture and the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Issuer has duly and validly executed the Purchase Contract, and the Purchase Contract constitutes the legal, valid and binding agreement of the Issuer, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally, and by equitable principles, whether considered at law or in equity.
2. The statements contained in the Official Statement on the cover page and under the captions “INTRODUCTION,” “THE SERIES 2010 BONDS (other than information relating to DTC and its book-entry only system, as to which no opinion need be expressed),” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS,” “TAX MATTERS,” and in Appendices F and H thereto, insofar as such statements expressly summarize certain provisions of

the Bonds, the Indenture and our final approving opinion relating to the Bonds, are accurate in all material respects.

3. The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

This opinion is rendered solely for your benefit in connection with issuance of the Bonds and may not be relied upon, used, circulated, quoted or referred to, nor any copies hereof be delivered to, any other person without our prior written approval. We disclaim any obligation to supplement this letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in the law that may hereafter occur, and our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

EXHIBIT C

OPINION OF AUTHORITY COUNSEL ADDRESSED TO THE UNDERWRITER

[DATE OF DELIVERY]

Stone & Youngberg LLC
as Underwriter
San Francisco, California

LODI PUBLIC FINANCING AUTHORITY

\$ _____^{*}
**2010 Water Revenue Bonds,
Series A**

\$ _____^{*}
**2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds - Direct
Payment)**

Dear Ladies and Gentlemen:

I am [_____], counsel to the Lodi Public Financing Authority (the "Authority") a joint exercise of powers entity organized and existing pursuant to the provisions of Title 1, Division 7, Chapter 5 of the Government Code of the State of California. This opinion is rendered in connection with the issuance of \$_____ 2010 Water Revenue Bonds, Series A (the "Series 2010A Bonds") and \$_____ 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds - Direct Payment) (the "Series 2010B Bonds" and, together with the Series 2010A Bonds, the "Series 2010 Bonds"). The Series 2010 Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2010, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (the "Indenture").

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture, or, if not defined in the Indenture, in the Purchase Agreement.

In rendering this opinion, I have examined the following documents:

- (i) The Indenture;
- (ii) The Installment Sale Agreement, dated as of October 1, 2010 (the "Installment Sale Agreement") between the City and the Authority;
- (iii) The Bond Purchase Agreement (the "Purchase Agreement") dated October __, 2010, by and among Stone & Youngberg LLC, as underwriter of the Series 2010 Bonds, the Authority and the City; and
- (iv) The Official Statement (the "Official Statement") dated October __, 2010, relating to the Series 2010 Bonds.

In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

^{*} Preliminary; subject to change.

Based on the foregoing, I am of the opinion that:

The Authority is a joint exercise of powers entity duly organized under the laws of the State of California.

Resolution No. _____ (the "Resolution") approving and authorizing the issuance of the Series 2010 Bonds and the execution and delivery of the Indenture, the Installment Sale Agreement, the Purchase Agreement and the Official Statement was duly adopted by the Authority at a meeting of the Governing Board of the Authority held on September __, 2010, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

There is no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, public board or body pending (with service of process having been accomplished) or, to my current actual knowledge after reasonable investigation, threatened against or affecting the Authority in any way contesting or affecting the validity of the Series 2010 Bonds, the Indenture, the Installment Sale Agreement or the Purchase Agreement or the sources of payment for the Series 2010 Bonds.

The issuance of the Series 2010 Bonds and the execution and delivery of the Indenture, the Installment Sale Agreement, the Purchase Agreement and the Official Statement by the Authority, the adoption of the Resolution, and compliance by the Authority with the provisions of the foregoing, as appropriate, under the circumstances contemplated thereby, does not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which I have current actual knowledge after reasonable investigation) or by which it is bound (and of which I have current actual knowledge after reasonable investigation) or any existing law, regulation, court order or consent decree to which the Authority is subject.

The Official Statement and the Series 2010 Bonds have been duly authorized, executed and delivered by the Authority, and the Indenture, the Installment Sale Agreement and the Purchase Agreement have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture, the Installment Sale Agreement and the Purchase Agreement constitute legal, valid and binding agreements of the Authority, enforceable in accordance with their respective terms, subject in each case to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles; provided, that the enforceability of the foregoing agreements may be subject or limited by the unenforceability under certain circumstances of provisions imposing penalties, forfeitures or late payment charges upon delinquency in payment or the occurrence of a default, and no opinion is expressed as to any indemnification provisions contained therein.

Except as described in the Official Statement, no authorization, approval, consent or other order of the State of California or any other governmental authority or agency within the State of California having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Series 2010 Bonds, the Indenture, the Installment Sale Agreement, the Official Statement or the Purchase Contract or for the adoption of the Resolution which has not been obtained; provided, that no opinion is expressed with respect to qualification under Blue Sky or other state securities laws.

Sincerely,

EXHIBIT D

OPINION OF THE CITY ATTORNEY

[DATE OF DELIVERY]

Stone & Youngberg LLC,
as Underwriter
San Francisco, California

LODI PUBLIC FINANCING AUTHORITY

\$ _____
**2010 Water Revenue Bonds,
Series A**

\$ _____
**2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds – Direct
Payment)**

Dear Ladies and Gentlemen:

I am City Attorney to the City of Lodi (the “City”), a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State of California (the “State”), and this opinion is rendered in connection with the issuance of the Lodi Public Financing Authority (the “Authority”) \$ _____ 2010 Water Revenue Bonds, Series A (the “Series 2010A Bonds”) and \$ _____ 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds – Direct Payment) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “Series 2010 Bonds”).

In rendering this opinion, I have examined the following documents: (i) an Installment Sale Agreement, dated as of October 1, 2010 (the “2010 Installment Sale Agreement”) between the City and the Authority; (ii) the Bond Purchase Agreement (the “Purchase Agreement”) dated October __, 2010, by and among Stone & Youngberg LLC, as Underwriter of the Series 2010 Bonds, the Authority and the City; (iii) the Official Statement (the “Official Statement”) dated October __, 2010, relating to the Series 2010 Bonds; and (iv) the Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”), dated as of the date hereof, relating to the Series 2010 Bonds.

In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

The City is a municipal corporation and general law city duly organized under the laws of the State of California.

Resolution No. _____ (the “Resolution”) approving and authorizing the issuance of the Series 2010 Bonds and the execution and delivery of the Installment Sale Agreement, the Purchase Agreement, the Continuing Disclosure Certificate and the Official Statement was duly adopted by the City at a meeting of the City Council of the City held on October __, 2010, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body pending (with service of process having been accomplished) or, to my current actual knowledge after reasonable investigation, threatened against or affecting the City's financial condition or operation or in any way contesting or affecting the validity of the Installment Sale Agreement, the Purchase Agreement or the Continuing Disclosure Certificate or the sources of payment for the Series 2010 Bonds.

The execution and delivery of the Installment Sale Agreement, the Purchase Agreement, the Continuing Disclosure Certificate and the Official Statement by the City, the adoption of the Resolution, and compliance by the City with the provisions of the foregoing, as appropriate, under the circumstances contemplated thereby, does not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party (and of which I have current actual knowledge after reasonable investigation) or by which it is bound (and of which I have current actual knowledge after reasonable investigation) or any existing law, regulation, court order or consent decree to which the City is subject.

The Official Statement has been duly authorized, executed and delivered by the City, and the Installment Sale Agreement, the Purchase Agreement and the Continuing Disclosure Certificate have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, the Installment Sale Agreement, the Purchase Agreement and the Continuing Disclosure Certificate constitute legal, valid and binding agreements of the City, enforceable in accordance with their respective terms, subject in each case to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles; provided, that the enforceability of the foregoing agreements may be subject or limited by the unenforceability under certain circumstances of provisions imposing penalties, forfeitures or late payment charges upon delinquency in payment or the occurrence of a default, and no opinion is expressed as to any indemnification provisions contained therein.

Except as described in the Official Statement, no authorization, approval, consent or other order of the State of California or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the Installment Sale Agreement, the Official Statement, the Purchase Agreement or the Continuing Disclosure Certificate or for the adoption of the Resolution which has not been obtained; provided, that no opinion is expressed with respect to qualification under Blue Sky or other state securities laws.

Under the laws of the State of California, and subject to the requirements of Proposition **218**, the City has the authority to fix and collect charges for water service and is not presently subject to the regulatory jurisdiction of any state, regional or local governmental regulatory authority in connection with fixing and collecting such charges.

The Net Revenues (as defined in the Official Statement) are free and clear of and from any and all liens and encumbrances other than as set forth in the Official Statement.

Sincerely,

City Attorney

By: _____

INSTALLMENT SALE AGREEMENT

Dated as of October 1, 2010

between the

LODI PUBLIC FINANCING AUTHORITY,
as Seller

and the

CITY OF LODI,
as Purchaser

Relating to

\$ _____
Lodi Public Financing Authority
2010 Water Revenue Bonds,
Series A

\$ _____
Lodi Public Financing Authority
2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds -
Direct Payment)

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INSTALLMENT SALE AGREEMENT

This INSTALLMENT SALE AGREEMENT (this "Agreement"), dated as of October 1, 2010, is between the LODI PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority"), as seller, and the CITY OF LODI, a municipal corporation duly organized and existing under the laws of the State of California (the "City"), as purchaser.

BACKGROUND:

1. The City owns and operates facilities and property for the supply, treatment and distribution of water within the service area of the City (the "Water System"), and the City wishes to raise funds to finance additional improvements to the Water System, consisting generally of the acquisition and construction of surface water treatment facilities (the "Project");

2. The Authority has been formed for the purpose of assisting the City in the financing of public capital improvements, and in order to accomplish the financing plan described in the previous paragraph, the Authority has proposed to enter into this Agreement with the City under which the Authority will acquire, construct and improve the Project and sell the completed Project to the City in consideration of the agreement by the City to pay the purchase price thereof in semiannual installments.

3. The Authority will raise funds to finance the Project by issuing its Lodi Public Financing Authority 2010 Water Revenue Bonds, Series A in the aggregate principal amount of \$_____ (the "Series A Bonds") under an Indenture of Trust dated as of October 1, 2010 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), which are payable from revenues consisting primarily of installment payments payable by the City hereunder.

4. The Authority will raise additional funds to finance the Project by issuing its Lodi Public Financing Authority 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds - Direct Payment) in the aggregate principal amount of \$_____ (the "Series B Bonds") under the Indenture, which are also payable from revenues consisting primarily of installment payments payable by the City hereunder.

5. In order to provide revenues which are sufficient to pay the principal of and interest on the Series A Bonds and the Series B Bonds (collectively, the "Bonds") when due, the Authority and the City wish to enter into this Agreement under which the Authority agrees to sell the Project to the City, in consideration of which the City agrees to pay the Installment Payments (the "Installment Payments") which are secured by a pledge of and lien on the net revenues of the Water System.

AGREEMENT:

In consideration of the foregoing and the material covenants hereinafter contained, the City and the Authority formally agree as follows:

ARTICLE I

DEFINITIONS; RULES OF INTERPRETATION

SECTION 1.1. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Agreement have the respective meanings given such terms in this Section 1.1. Capitalized terms used in this Agreement and not otherwise defined in this Section 1.1 have the respective meanings given them in Appendix A to the Indenture.

"Additional Payments" means the amounts payable by the City under Section 4.8.

"Additional Revenues" means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

- (a) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be financed from the proceeds of such Parity Debt or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any other 12-month period selected by the City under Section 5.8(b), were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer or Fiscal Consultant employed by the City.
- (b) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such Parity Debt but which, during all or any part of such Fiscal Year or such other 12-month period selected by the City under Section 5.8(b), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such other 12-month period, all as shown by the certificate or opinion of an Independent Accountant or Fiscal Consultant employed by the City.

"Continuinn Disclosure Certificate" means the Continuing Disclosure Certificate which is executed and delivered by the City on the Closing Date.

"Event of Default" means any of the events specified in Section 6.1.

"Fiscal Consultant" means any consultant or firm of such consultants, including but not limited to a qualified engineer or rate consultant, appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the

financing of water enterprises; (b) is in fact independent and not under domination of the City; (c) does not have any substantial interest, direct or indirect, with the City other than as purchaser of the Bonds or any Parity Debt; and (d) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

"Gross Revenues" means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to connection charges (including the City's impact mitigation fees) to the extent permitted by law, investment earnings thereon and the Refundable Credits; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the City relating to the Water System and (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Water System.

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

"Installment Payment Date" means, with respect to any Interest Payment Date, the Business Day immediately preceding such Interest Payment Date.

"Installment Payments" means the payments the City is required to pay pursuant to Section 4.4(a) as the purchase price of the Project.

"Maximum Annual Debt Service" means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year:

- (a) the aggregate amount of the Installment Payments coming due and payable in such Bond Year, except to the extent payable from any security deposit under Section 7.1 of this Installment Sale Agreement;
- (b) the principal amount of the all outstanding Parity Debt, if any, coming due and payable by their terms in such Bond Year; and
- (c) the amount of interest which would be due during such Bond Year on the aggregate principal amount of all outstanding Parity Obligations, if any, which would be outstanding in such Bond Year if such Parity Obligations are retired as scheduled; *provided, however,* that with respect to any Parity Debt which bears interest at a variable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J. J. Kenny Index (or, in the event and to the extent such index is not maintained for

all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations or taxable obligations, as applicable, as may be selected by the City in its sole discretion).

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Water System, including but not limited to (a) costs of acquisition of water to be supplied by the Water System, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water System; but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Water System, including but not limited to the Installment Payments and any Parity Debt, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Overdue Rate” means the highest rate of interest on any of the Outstanding Bonds.

“Parity Debt Documents” means, collectively, the indenture of trust, trust agreement or other document authorizing the issuance of any Parity Debt or any securities which evidence Parity Debt.

“Parity Debt” means any bonds, notes, leases, installment sale agreements or other obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with Section 5.8.

“Project” means the improvements to the Water System financed with the Series A Bonds and the Series B Bonds, including but not limited to (a) the acquisition and construction of surface water treatment facilities, including a raw water pump station, a raw water pipeline, a surface water treatment facility, structural facilities, an operations building, a chemical building, a high service pump station, a finished water storage tank, a soda ash silo, and water and sewer pipelines, and (b) other upgrades and improvements of the Water System.

“Rate Stabilization Fund” means any fund established and held by the City as a fund for the stabilization of rates and charges imposed by the City with respect to the Water System, which fund is established, held and maintained in accordance with Section 4.6.

“Refundable Credits” means the amounts (if any) which are payable to the issuer of Build America Bonds by the federal government under Section 6431 of the Tax Code, which the issuer of such Build America Bonds elects to receive under Section 54AA(g)(1) of the Tax Code.

“Water System” means the entire water treatment, production, storage and distribution system owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the City for the collection, treatment and supply of water to residents served thereby, whether within or without the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the City.

“Water System Fund” means the fund established and held by the City pursuant to Section 4.5 of this Agreement.

SECTION 1.2. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and do not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.1. *Representations, Covenants and Warranties of the City.* The City represents, covenants and warrants to the Authority as follows:

- (a) Due Organization and Existence. The City is a municipal corporation duly organized and validly existing under the laws of the State of California, has full legal right, power and authority under said laws to enter into this Agreement and to carry out and consummate all transactions contemplated hereby and thereby, and by proper action the City Council of the City has duly authorized the execution and delivery of this Agreement.
- (b) Due Execution. The representatives of the City executing this Agreement are fully authorized to execute the same.
- (c) Valid, Binding and Enforceable Obligations. This Agreement has been duly authorized, executed and delivered by the City and constitutes the legal, valid and binding agreement of the City

enforceable against the City in accordance with its terms; except as the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and except as such enforceability may be subject to the exercise of judicial discretion in accordance with principles of equity.

- (d) No Conflicts. The execution and delivery of this Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially adversely affect the consummation of the transactions contemplated by this Agreement or the financial condition, assets, properties or operations of the City, including but not limited to the performance of the City's obligations under this Agreement.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Agreement, or the consummation of any transaction herein contemplated, except as have been obtained or made and as are in full force and effect.
- (9) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by this Agreement, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under this Agreement.

- (g) Prior Indebtedness. The City has not issued or incurred any obligations which are currently outstanding having any priority in payment out of the Gross Revenues or the Net Revenues over the payment of the Installment Payments as provided herein.

SECTION 2.2. *Representations, Covenants and Warranties of Authority.* The Authority represents, covenants and warrants to the City as follows:

- (a) Due Organization and Existence. The Authority is a joint exercise of powers authority organized and existing under the laws of the State of California, and has power to enter into this Agreement and the Indenture and to perform the duties and obligations imposed on it hereunder and thereunder. The Board of Directors of the Authority has duly authorized the execution and delivery of this Agreement and the Indenture.
- (b) Due Execution. The representatives of the Authority executing this Agreement and the Indenture are fully authorized to execute the same.
- (c) Valid, Binding and Enforceable Obligations. This Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority with the Authority, enforceable against the Authority in accordance with their respective terms; except as the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and except as such enforceability may be subject to the exercise of judicial discretion in accordance with principles of equity.
- (d) No Conflicts. The execution and delivery hereof and of the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially adversely affect the consummation of the transactions contemplated hereby and by the Indenture or the financial condition, assets, properties or operations of the Authority, including but not limited to the performance of the Authority's obligations under this Agreement and the Indenture.

- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery hereof or of the indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by this Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority, including but not limited to the performance of the Authority's obligations hereunder and under the Indenture.
- (g) Build America Bonds. The Authority shall take all actions required to designate the Series B Bonds as Build America Bonds and to elect to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code.

ARTICLE III

ISSUANCE OF BONDS; ACQUISITION AND CONSTRUCTION OF PROJECT

SECTION 3.1. *Issuance of Bonds; Deposit of Proceeds.* The Authority shall cause the Bonds to be issued under the Indenture in the aggregate principal amount set forth in the Indenture. The Trustee shall deposit the proceeds of sale of the Bonds received by it on the Closing Date in accordance with the Indenture. The City hereby approves the Indenture, the assignment thereunder to the Trustee of certain rights of the Authority, and the issuance of the Bonds.

SECTION 3.2. *Acquisition and Construction of the Project.* The Authority hereby agrees with due diligence to supervise and provide for, or cause to be

supervised and provided for, the acquisition, construction and installation of the Project in accordance with the plans and specifications, purchase orders, construction contracts and other documents relating thereto and approved by the City under all applicable requirements of law. All contracts for, and all work relating to, the acquisition, construction and installation of the Project are subject to all applicable provisions of law relating to the acquisition and construction of public works by the City. The Authority expects that the Project will be completed within three years of the Closing Date. The failure of the Authority to complete the Project by that date does not constitute an Event of Default or a grounds for termination hereof, nor does any such failure result in the diminution, abatement or extinguishment of the obligations of the City hereunder to pay the Installment Payments when due hereunder.

SECTION 3.3. *Appointment of City as Agent.* The Authority hereby appoints the City as its agent to carry out all phases of the acquisition, construction and installation of the Project under and in accordance with the provisions hereof. The City hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Authority regarding the acquisition, construction and installation of the Project. As agent of the Authority hereunder, the City shall enter into, administer and enforce all purchase orders or other contracts relating to the Project. Payment of Project Costs will be made by the City from amounts held by the Trustee in the Project Funds in accordance with the provisions of this Agreement and the provisions of the Indenture.

SECTION 3.4. *Plans and Specifications.* The City has the right to specify the exact scope, nature and identification of the Project and the respective components thereof. Before any payment is made for the Project or any component thereof from amounts on deposit in the Project Funds, the City shall prepare detailed plans and specifications relating thereto, to the extent applicable. The City may from time to time amend any such plans and specifications, and thereby change or modify the description of the Project or any component thereof.

SECTION 3.5. *Certificate of Completion.* Upon the completion of the Project, but in any event not later than 30 days following such completion, an Authorized Representative of the City shall execute and deliver to the Authority and the Trustee a Written Certificate of the City which (a) states that the construction of the Project has been substantially completed, (b) identifies the total Project Costs thereof, and (c) identifies the amounts, if any, to be reserved in the Project Funds for payment of future Project Costs.

ARTICLE IV

SALE OF PROJECT; INSTALLMENT PAYMENTS

SECTION 4.1. *Term.* The Term of this Agreement commences on the Closing Date, and ends on June 1, _____, or such later or earlier date on which the Bonds cease to be Outstanding under and within the meaning of the Indenture.

SECTION 4.2. *Sale of Project* The Authority hereby sells the Project to the City, and the City hereby purchases the Project from the Authority, upon the terms and conditions set forth in this Agreement.

SECTION 4.3. *Title.* Title to the Project, and each component thereof, will be deemed conveyed by the Authority to and vested in the City upon the completion of the acquisition, construction and installation thereof. The Authority and the City will execute, deliver and cause to be recorded any and all documents reasonably required by the City to consummate the transfer of title to the Project. As agent of the Authority under Section 3.3, the City shall acquire title to the Project, and each component thereof, concurrently with the acquisition and construction of the Project and each component thereof, without the need to vest title originally in the name of the Authority.

SECTION 4.4. *Installment Payments.*

(a) Obligation to Pay Installment Payments to Purchase the Project. The City hereby agrees to pay to the Authority, as the purchase price of the Project hereunder, the aggregate principal amount of \$_____ together with interest (calculated on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance thereof, payable in semiannual installment payments in the respective amounts and on the respective Installment Payment Dates specified in Appendix A.

(b) Payment Provisions. The City shall deposit the Installment Payment coming due and payable on any Interest Payment Date with the Trustee, as assignee of the Authority under the Indenture, on the related Installment Payment Date. In determining the amount required to be deposited with the Trustee on any Installment Payment Date, all amounts then held by the Trustee in the Bond Fund and the accounts therein (other than amounts held in the Reserve Account or otherwise required to be deposited in the Reserve Account to cause the balance therein to equal the Reserve Requirement), shall be credited towards the Installment Payment then due. The Installment Payments are secured by and payable solely from the sources specified in Section 4.5.

(c) Effect of Prepayment. If the City prepays all remaining Installment Payments in full under Section 7.2 or Section 7.3, the City's obligations under this Agreement will thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments therefor under this Section 4.4; *provided, however,* that the City's obligations to compensate and indemnify the Trustee under Sections 4.8 and 5.2 will survive such prepayment. If the City prepays the Installment Payments in part but not in whole under Section 7.2 or Section 7.3, the principal component of each succeeding Installment Payment will be reduced as provided in such Sections, and the interest component of each remaining Installment Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be

payable with respect to the Bonds thereby redeemed under the applicable provisions of Section 4.01 of the Indenture.

(d) Rate on Overdue Payments. If the City fails to make any of the payments required under this Section 4.4 and Section 4.8, the payment in default will continue as an obligation of the City until fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the Overdue Rate.

(e) Assignment. Certain rights of the Authority, including but not limited to the right of the Authority to receive payment of the Installment Payments, have been assigned by the Authority to the Trustee in trust under the Indenture, for the benefit of the Owners of the Bonds, and the City hereby consents to such assignment. The Authority hereby directs the City, and the City hereby agrees, to pay to the Trustee at its Trust Office, all payments payable by the City under this Section 4.4 and all amounts payable by the City under Article VII.

SECTION 4.5. *Pledge and Application of Net Revenues.*

(a) Pledge. The City hereby establishes a pledge of, lien on and security interest in all of the Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture to secure the Installment Payments and any Parity Debt.

(b) Deposit of Net Revenues Into Water System Fund; Transfers to Make Payments. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all Gross Revenues, including, without limitation, Refundable Credits, shall be received by the City in trust hereunder and shall be deposited when and as received in a special fund designated as the "Water System Fund", which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments remain unpaid. To the extent the City has an existing fund or existing funds which satisfy the foregoing requirements, then such shall be deemed to be the "Water System Fund" and the City shall not be required to create a new fund. The City may maintain separate funds or accounts within the Water System Fund. Moneys in the Water System Fund shall be used and applied by the City as provided in this Agreement and any Parity Debt Documents.

Amounts on deposit in the Water System Fund will be applied by the City to pay when due the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs;
- (ii) the Installment Payments and all payments of principal of and interest on any Parity Debt;
- (iii) to the Trustee the amount of any deficiency in the Reserve Account established for the Bonds and in any reserve account established for Parity Debt, the notice of which deficiency has been sent to the City in accordance with Section 5.05(d) of the Indenture and in accordance with the applicable provisions of the related Parity Debt Documents;

- (iv) any other payments required to comply with the provisions of this Agreement and any Parity Debt Documents; and
- (v) any other purposes authorized under subsection (d) of this Section 4.5.

(c) No Preference or Priority. Payment of the Installment Payments and the principal of and interest on any Parity Debt will be made without preference or priority among the Installment Payments and such Parity Debt. If the amount of Net Revenues on deposit in the Water System Fund is at any time insufficient to enable the City to pay when due the Installment Payments and the principal of and interest on any Parity Debt, such payments will be made on a pro rata basis.

(d) Other Uses of Net Revenues Permitted. The City shall manage, conserve and apply the Net Revenues on deposit in the Water System Fund in such a manner that all deposits required to be made under the preceding subsection (b) will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the City may use and apply moneys in the Water System Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Water System, (iii) the prepayment of any other obligations of the City relating to the Water System, or (iv) any other lawful purposes of the City.

(e) Budget and Appropriation of Installment Payments. During the Term of this Agreement, the City shall adopt all necessary budgets and make all necessary appropriations of the Installment Payments from the Net Revenues. If any Installment Payment requires the adoption by the City of any supplemental budget or appropriation, the City shall promptly adopt the same. The covenants on the part of the City contained in this subsection (e) constitute duties imposed by law and it is the duty of each and every public official of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this subsection (e).

SECTION 4.6. *Establishment of Rate Stabilization Fund.* The City has the right at any time to establish a fund to be held by it and administered in accordance with this Section 4.6, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Installment Payments and any Parity Debt, as the City may determine. The Rate Stabilization Fund shall be accounted for as a separate fund, although amounts credited to it may be commingled with other funds of the City.

The City may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water System Fund in any Fiscal Year for the purpose of paying the installment Payments or the principal of and interest on any Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water System Fund in any Fiscal Year constitute Gross Revenues for that Fiscal Year (except as otherwise provided herein), and will be applied for the purposes of the Water System Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not otherwise secure the Installment Payments or any Parity Debt. All interest or other earnings on deposits

in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

SECTION 4.7. *Special Obligation of the City; Obligations Absolute.* The City's obligation to pay the Installment Payments and any other amounts coming due and payable hereunder is a special obligation of the City limited solely to the Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments and such other amounts. No other funds or property of the City are liable for the payment of the Installment Payments and any other amounts coming due and payable hereunder.

The obligations of the City to pay the Installment Payments from the Net Revenues and to perform and observe the other agreements contained herein are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Authority or the Trustee of any obligation to the City or otherwise with respect to the Water System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable hereunder are fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in this Agreement, and (c) will not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System, failure to complete the acquisition and construction of the Project by the estimated completion date thereof, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State of California or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or this Agreement.

The foregoing provisions of this Section 4.7 do not release the Authority from the performance of any of the agreements on its part contained herein or in the Indenture, and if the Authority fails to perform any such agreements, the City may institute such action against the Authority as the City deems necessary to compel performance, so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at its cost and expense and in its name or in the name of the Authority, prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights hereunder, and in such event the Authority shall cooperate fully with the City and shall take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City may request.

SECTION 4.8. *Additional Payments.* In addition to the Installment Payments, the City shall pay when due the following amounts to the following parties:

- (a) to the Authority, all costs and expenses incurred by the Authority to comply with the provisions of this Agreement and the Indenture; and
- (b) to the Trustee upon request therefor, all of its costs and expenses payable as a result of the performance of and compliance with its duties hereunder or under the Indenture or any related documents;
- (c) to the Authority and the Trustee, all amounts required to indemnify the Authority and the Trustee under Section 5.2 hereof and Section 8.07 of the Indenture;
- (d) all costs and expenses of auditors, engineers and accountants for professional services relating to the Water System or the Bonds; and
- (e) all Excess Investment Earnings payable under Section 5.11(e).

The Additional Payments are payable from, but are not secured by a pledge or lien upon, the Net Revenues. The rights of the Trustee and the Authority under this Section **4.8**, and the obligations of the City under this Section **4.8**, shall survive the termination of this Agreement.

ARTICLE V

COVENANTS OF THE CITY

SECTION 5.1. *Disclaimer of Warranties.* The Trustee makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Project or any component thereof, or any other representation or warranty with respect to the Project or any component thereof. In no event is the Authority liable for incidental, indirect, special or consequential damages, in connection with or arising out of this Agreement or the Indenture for the existence, furnishing, functioning or use of the Project.

SECTION 5.2. *Release and Indemnification Covenants.* The City agrees to indemnify the Authority, the Trustee and their respective officers, agents, successors and assigns, against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on or about the Water System by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under this Agreement or the Indenture, (c) any act or omission of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Water System, and (d) any act or omission of any lessee of the City with respect to the Water System. No indemnification is made under this Section 5.2 or elsewhere in this Agreement for willful misconduct or negligence under this Agreement by the Authority, the Trustee or their respective officers, agents, employees, successors or assigns. The provisions of this Section 5.2 shall survive the expiration of the Term of this Agreement.

SECTION 5.3. *Sale or Eminent Domain of Water System.* Except as provided herein, the City covenants that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of this Agreement or any Parity Debt Documents. The City may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Bond Owners or the Trustee with respect to the Net Revenues.

If any substantial part of the Water System is sold or taken in eminent domain proceedings, the payment therefor shall either (a) be used for the acquisition or construction of improvements to the Water System, or (b) be applied at the election of the City to (i) prepay the Installment Payments on the next available prepayment date under Section 7.3, or (ii) redeem any Parity Debt in accordance with the related Parity Debt Documents.

SECTION 5.4. *Insurance.* The City shall at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. The City shall apply any amounts collected from insurance against accident to or destruction of any portion of the Water System, at its option, either (a) to repair or rebuild such damaged or destroyed portion of the Water System, or (b) to (i) prepay the Installment Payments on the next available prepayment date under Section 7.3, or (ii) redeem any Parity Debt in accordance with the related Parity Debt Documents.

The City shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Authority, the Trustee and the Owners of the Bonds.

Any policy of insurance required under this Section 5.4 may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

SECTION 5.5. *Records and Accounts.* The City shall keep proper books of record and accounts of the Water System in which complete and correct entries are made of all transactions relating to the Water System. Said books shall, upon prior request, be subject to the reasonable inspection of the Owners of not less than 10% of the Outstanding Bonds, or their representatives authorized in writing, upon not less than two Business Days' prior notice to the City.

The City shall cause the books and accounts of the Water System to be audited annually by an Independent Accountant not more than nine months after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the City and at the Trust Office of the Trustee. Such report

may be part of a combined financial audit or report covering all or part of the City's finances.

SECTION 5.6. *Rates and Charges.*

(a) Covenant Regarding Gross Revenues. The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

- (i) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;
- (ii) All Installment Payments and all payments of principal of and interest on any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent any of such payments are payable from bond proceeds or from any other source of legally available funds of the City which have been deposited with the Trustee for such purpose prior to the commencement of the related Fiscal Year;
- (iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement, and to restore the balance in the reserve account established for any Parity Debt to their required balances; and
- (iv) All Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

(b) Covenant Regarding Net Revenues. In addition, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield both of the following:

(i) Net Revenues equal to at least 125% of the amount described in the preceding clause (ii) that is due in such Fiscal Year. For purposes of this paragraph (b)(i), the amount of Net Revenues for a Fiscal Year will be computed on the basis that any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of Net Revenues, as provided in Section 4.6, but only to the extent that the moneys transferred from the Rate Stabilization Fund would not otherwise constitute Gross Revenues for the Fiscal Year.

(ii) Net Revenues equal to at least 100% of the amounts described in the preceding clauses (i) and (iii) that are due in such Fiscal Year. For purposes of this paragraph (b)(ii), the amount of Net Revenues for a Fiscal Year will be computed on the basis that (A) any connection charges (including the City's impact mitigation fees) deposited into the Water System Fund in that Fiscal Year shall not be included, (B) any transfers into the Water System Fund in that Fiscal

Year from the Rate Stabilization Fund shall not be included in the calculation of Net Revenues, and (C) any deposits into the Rate Stabilization Fund in that Fiscal Year shall be included in the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

(c) Treatment of Refundable Credits. For purposes of compliance with the covenants contained in this Section 5.6, the amount of any Refundable Credits that the City expects to receive in a Fiscal Year shall be excluded from the amount of Gross Revenues for such Fiscal Year, but shall be included as a credit against the applicable amount of Installment Payments or debt service on Parity Debt coming due in such Fiscal Year.

SECTION 5.7. *Superior and Subordinate Obligations.* The City may not issue or incur any additional bonds or other obligations during the Term of this Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. Nothing herein limits or affects the ability of the City to issue or incur (a) Parity Debt under Section 5.8, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder.

SECTION 5.8. *Issuance of Parity Debt.* Except for obligations incurred to prepay or discharge the Installment Payments or any Parity Debt, the City may not issue or incur any Parity Debt during the Term hereof unless all of the following conditions are satisfied:

- (a) No Event of Default has occurred and is continuing (unless the Event of Default will be cured as a result of the issuance of the Parity Debt).
- (b) The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements are available, or for any more recent consecutive 12-month period selected by the City at its option, in either case verified by a certificate or opinion of an Independent Accountant or Fiscal Consultant, plus the Additional Revenues, at least equal 125% of the amount of Maximum Annual Debt Service with respect to the Installment Payments and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued). For purposes of this paragraph, the amount of any Refundable Credits that the City expects to receive in a Fiscal Year shall be excluded from the amount of Gross Revenues for such Fiscal Year, but shall be included as a credit against the applicable amount of Installment Payments and principal of and interest on any Parity Debt coming due in such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that any transfers into the Water System Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of Net Revenues, as provided in Section 4.6 (but only to the extent that the moneys transferred from the Rate Stabilization Fund would

not otherwise constitute Gross Revenues for the applicable Fiscal Year).

- (c) Except as provided below, upon the issuance of such Parity Debt a reserve fund shall be established for such Parity Debt. The reserve fund which is established for an issue of Parity Debt shall be required to be maintained in an amount which, together with the aggregate amount required to be on deposit in all of the reserve funds established for the Bonds and other outstanding Parity Debt, is at least equal to Maximum Annual Debt Service on the Installment Payments and all outstanding Parity Debt, taken as a whole (other than Parity Debt for which no reserve fund is established as described below). Notwithstanding the foregoing, the amount which is required to be maintained in any reserve fund which is established for Parity Debt shall not exceed the maximum amount then permitted to be funded from the proceeds of tax-exempt obligations under the Tax Code. The Reserve Account and all other reserve funds which are funded from the proceeds of Parity Debt shall constitute a single reserve for the equal and proportionate benefit of the Bonds and all outstanding Parity Debt (other than Parity Debt for which no reserve fund established as required below), without preference or priority. Any such reserve fund may be maintained in the form of a letter of credit or surety bond.

In the event the City issues Parity Debt the purchaser of which does not require the establishment of a reserve fund, such Parity Debt may be issued without a reserve fund. However, in that event, such Parity Debt is not entitled to the security of amounts held in the reserve fund which is established for the Bonds or for any other issue of Parity Debt, and such Parity Debt will be disregarded in determining the amount required to be maintained in any other reserve fund established for outstanding Parity Debt.

- (d) The trustee or fiscal agent for such Parity Debt (except to the extent required to be a separate entity from the City or the Authority by the purchaser of such Parity Debt) is the same entity performing the functions of Trustee under the Indenture.
- (e) The City must deliver to the Trustee a Written Certificate of the City certifying that the conditions precedent to the issuance of such Parity Debt set forth in this Section 5.8 have been satisfied.

SECTION 5.9. *Operation of Water System in Efficient and Economical Manner.* The City covenants and agrees to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

SECTION 5.10. *Assignment and Amendment Hereof.* The Authority and the City may at any time amend or modify any of the provisions of this Agreement, but only: (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of the Trustee or any of

the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in this Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement this Agreement in such manner as to assure that the interest on the Series A Bonds remains excluded from gross income under the Tax Code;
- (iv) to modify, amend or supplement this Agreement in such manner so as to cause the Series B Bonds to be treated as Build America Bonds and Qualified Bonds and therefore be eligible for the Refundable Credits; and
- (iv) in any other respect whatsoever as the Authority and the City deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

No such modification or amendment may (a) extend or have the effect of extending any Installment Payment Date or reducing any Installment Payment or any premium payable upon the prepayment thereof, without the express consent of the Owners of the affected Bonds, or (b) modify any of the rights or obligations of the Trustee without its written assent thereto.

SECTION 5.11. *Tax Covenants.*

(a) Private Business Use Limitation. The City shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The City may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Series A Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The City shall calculate or cause to be calculated the Excess Investment Earnings in all respects at the times and in the manner required under the Tax Code. The City shall pay the full amount of Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code. Such payments shall be made by the City from any source of legally available funds of the City, and shall constitute Additional Payments hereunder.

The City shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e). In order to provide for the administration of this subsection (e), the City may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the City may deem appropriate. The Trustee has no duty or obligation to monitor or enforce compliance by the City of any of the requirements under this subsection (e).

(9) Financing Capital Expenditures, No Working Capital. All amounts in excess of Available Project Proceeds of the Series B Bonds less Available Project Proceeds of the Series B Bonds deposited in the Reserve Account will be spent on capital expenditures with a reasonably expected economic life of one year or more.

(g) Limitation on Issuance Costs. No proceeds of the Series B Bonds and investment earnings thereon, in an amount in excess of 2% of the proceeds of the sale of the Series B Bonds, will be used to pay Costs of Issuance of the Series B Bonds. If the fees of the Original Purchaser of the Series B Bonds are retained as a discount on the purchase of the Series B Bonds, such retention shall be deemed to be an expenditure of proceeds of the Series B Bonds for said fees. No proceeds of the Series B Bonds will be used to pay Costs of Issuance of the Series A Bonds and no proceeds of the Series A Bonds will be used to pay Costs of Issuance of the Series B Bonds.

(h) Expenditure of Proceeds to Assure Series B Bonds Are Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Series B Bonds are expended and all federal tax requirements are met so as to cause the Series B Bonds to be treated as Build America Bonds and Qualified Bonds and therefore be eligible for the Refundable Credits.

(i) Filing of Forms To Receive Refundable Credits. The Authority will, within the 45-day period beginning on the date that is 90 days before the next Interest Payment Date, file Form 8038-CP or any successor form designated by the federal government, requesting payment of the Refundable Credits with respect to the next interest payment on the Series B Bonds. The Authority hereby irrevocably assigns the Refundable Credits to the City, and the Refundable Credits received by the City constitute Gross Revenues.

The Authority may enter into an agreement, in customary form, with the Trustee to act on behalf of the Authority for purposes of timely filing the applicable forms. The Authority shall direct that payment of the Refundable Credits be made directly by the

federal government to the City. Any Refundable Credits collected or received by the Authority or the Trustee shall be deemed to be held, and to have been collected or received, by the Authority or the Trustee as the agent of the City and shall promptly be paid by the Authority or the Trustee, as applicable, to the City.

SECTION 5.12. *continuing Disclosure* The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Certificate does not constitute an Event of Default. However, any Participating Underwriter (as that term is defined in the Continuing Disclosure Certificate) or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel the City to perform its obligations under the Continuing Disclosure Certificate, including seeking mandate or specific performance by court order.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.1. *Events of Default Defined.* The following events constitute Events of Default hereunder:

- (a) Failure by the City to pay any Installment Payment when due and payable hereunder.
- (b) Failure by the City to pay any Additional Payment when due and payable hereunder, and the continuation of such failure for a period of 30 days.
- (c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee; *provided, however*, that if the City notifies the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 30-day period, such failure will not constitute an event of default hereunder if the City commences to cure such failure within such 30 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal

Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

- (e) The occurrence of any event of default under and as defined in any Parity Debt Documents.

SECTION 6.2. *Remedies on Default.* If an Event of Default occurs and is continuing, the Trustee as assignee of the Authority has the right, at its option and without any further demand or notice, to take any one or more of the following actions:

- (a) Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable.

The Trustee shall rescind and annul such declaration and its consequences if, before any judgment or decree for the payment of the moneys due has been obtained or entered, (i) the City deposits with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the Overdue Rate, and (ii) the City pays the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and (iii) any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) have been made good. No such rescission and annulment will extend to or shall affect any subsequent default, or impair or exhaust any right or power consequent thereon.

- (b) Take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of this Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under this Agreement.
- (c) As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners hereunder, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged hereunder, with such powers as the court making such appointment may confer.

SECTION 6.3. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Authority is intended to be exclusive. Every such remedy is cumulative and in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default impairs any such right or power or operates as a waiver thereof, but any such right and power may be exercised from time to time and as often as may be

deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article VI, it is not necessary to give any notice, other than such notice as may be required in this Article VI or by law.

SECTION 6.4. *Agreement to pay Attorneys' Fees and Expenses.* If either party to this Agreement defaults under any of the provisions hereof and the nondefaulting party, the Trustee or the Owner of any Bonds employs attorneys or incurs other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred. The provisions of this Section 6.4 survive the expiration of the Term of this Agreement.

SECTION 6.5. *No Additional Waiver Implied by One Waiver.* If any agreement contained in this Agreement is breached by either party and thereafter waived by the other party, such waiver is limited to the particular breach so waived and does not waive any other breach hereunder.

SECTION 6.6. *Trustee and Bond Owners to Exercise Rights.* Such rights and remedies as are given to the Authority under this Article VI have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City hereby consents. Such rights and remedies will be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

ARTICLE VII

PREPAYMENT OF INSTALLMENT PAYMENTS

SECTION 7.1. *Security Deposit.* Notwithstanding any other provision hereof, the City may on any date secure the payment of Installment Payments, in whole or in part, by irrevocably depositing with the Trustee an amount of cash which, together with other available amounts, is either:

- (a) sufficient to pay all such Installment Payments, including the principal and interest components thereof, when due under Section 4.4(a), or
- (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an Independent Accountant (which opinion is addressed and delivered to the Trustee), together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Installment Payments when due under Section 4.4(a) or when due on any optional prepayment date under Section 7.2, as the City instructs at the time of said deposit.

If the City makes a security deposit under this Section for the payment of all remaining Installment Payments, all obligations of the City hereunder, and the pledge of Net Revenues and all other security provided by this Agreement for said obligations, will

thereupon cease and terminate, excepting only the obligation of the City to make, or cause to be made, all Installment Payments from the security deposit. The security deposit will be deemed to be and will constitute a special fund for the payment of the Installment Payments in accordance with the provisions hereof.

SECTION 7.2. *Optional Prepayment.* The City may exercise its option to prepay the principal components of the Installment Payments in whole or in part on any date on or after the Installment Payment Date relating to the October 1, _____ Interest Payment Date. The City may exercise such option by payment of a prepayment price equal to the sum of (a) the aggregate principal components of the Installment Payments to be prepaid, (b) the interest component of the Installment Payment required to be paid on or accrued to such date, and (c) the premium (if any) then required to be paid upon the corresponding redemption of the Bonds under Section 4.01(a) of the Indenture. The Trustee shall deposit the prepayment price in the Installment Payment Fund to be applied to the redemption of Bonds under Section 4.01(a) of the Indenture. If the City prepays the Installment Payments in part but not in whole, the principal components will be prepaid among such maturities and in such integral multiples of \$5,000 as the City designates in written notice to the Trustee. The City shall give the Trustee written notice of its intention to exercise its option not less than 60 days in advance of the date of exercise.

SECTION 7.3. *Mandatory Prepayment From Proceeds of Insurance, Sale or Condemnation.* The City shall prepay the Installment Payments on any date, in whole, or in part among maturities on a pro rata basis in any integral multiple of \$5,000, from and to the extent of any proceeds of insurance, sale or condemnation awards with respect to the Water System theretofore paid to the Trustee for such purpose under Sections 5.3 or 5.4. The City and the Authority hereby agree that such proceeds, to the extent remaining after payment of any delinquent Installment Payments, will be deposited in the Installment Payment Fund and credited towards the City's obligations under this Section 7.3.

SECTION 7.4. *Credit for Amounts on Deposit.* If the City prepays the Installment Payments in full under this Article VII, such that the Indenture is discharged by its terms as a result of the prepayment, and upon payment in full of all Additional Payments and other amounts then due and payable hereunder, all available amounts then on deposit in the funds and accounts established under the Indenture will be credited towards the amounts then required to be so prepaid.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.1. *Further Assurances.* The City agrees that it will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Authority or the Trustee to carry out the intention or to facilitate the performance of this Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created.

SECTION 8.2. *Notices.* Any notice, request, complaint, demand or other communication under this Agreement must be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopier or other form of telecommunication, at its number set forth below. Notice is effective either (a) upon transmission by fax or other form of telecommunication, (b) upon actual receipt after deposit in the United States of America mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the City
or the Authority:*

City of Lodi
P.O. Box 3006
Lodi, California 95241-1910
Attention: Deputy City Manager/
Internal Services Director

If to the Trustee:

The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, California 94108
Attention: Corporate Trust Department

SECTION 8.3. *Governing Law.* This Agreement will be construed in accordance with and governed by the laws of the State of California.

SECTION 8.4. *Binding Effect.* This Agreement inures to the benefit of and is binding upon the Authority, the City and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 8.5. *Severability of Invalid Provisions.* If any one or more of the provisions contained in this Agreement are for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in this Agreement and such invalidity, illegality or unenforceability will not affect any other provision of this Agreement, and this Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the City each hereby declares that it would have entered into this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Agreement may be held illegal, invalid or unenforceable.

SECTION 8.6. *Article and Section Headings and References.* The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, are solely for convenience of reference and do not affect the meaning, construction or effect of this Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender mean and include words of the feminine and neuter genders.

SECTION 8.7. *Payment on Non-Business Days.* Whenever any payment is required to be made hereunder on a day which is not a Business Day, such payment will be made on the immediate preceding Business Day.

SECTION 8.8. *Execution of Counterparts.* This Agreement may be executed in any number of counterparts, each of which will for all purposes be deemed to be an original and all of which together constitute but one and the same instrument.

SECTION 8.9. *Waiver of Personal Liability.* No member of the City Council, officer, agent or employee of the City has any individual or personal liability for the payment of Installment Payments or Additional Payments or be subject to any personal liability or accountability by reason of this Agreement; but nothing herein contained relieves any such member of the City Council, officer, agent or employee from the performance of any official duty provided by law or by this Agreement.

SECTION 8.10. *Trustee as Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary hereof and is entitled to the benefits of this Agreement with the same force and effect **as** if the Trustee were a party hereto.

IN WITNESS WHEREOF, the Authority and the City have caused this Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

LODI PUBLIC FINANCING AUTHORITY,
as Seller

By _____
Executive Director

ATTEST:

By _____
Secretary

CITY OF LODI, as Purchaser

By _____
City Manager

ATTEST:

By _____
City Clerk

APPENDIX A
SCHEDULE OF INSTALLMENT PAYMENTS

<u>Installment Payment Date⁽¹⁾</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
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(1) Installment Payment Dates are the Business Day immediately preceding each Interest Payment Date shown in the table.

INDENTURE OF TRUST

Dated as of October 1, 2010

between

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

and the

LODI PUBLIC FINANCING AUTHORITY

Authorizing the Issuance of

\$ _____
Lodi Public Financing Authority
2010 Water Revenue Bonds,
Series A

\$ _____
Lodi Public Financing Authority
2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds -
Direct Payment)

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APPENDIX B FORM **OF** BONDS

INDENTURE OF TRUST

This INDENTURE ~~OF~~ TRUST (this "Indenture"), dated for convenience as of October 1, 2010, is between the LODI PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in San Francisco, California, being qualified to accept and administer the trusts hereby created (the "Trustee").

BACKGROUND:

1. The City of Lodi (the "City") owns and operates facilities and property for the supply, treatment and distribution of water within the service area of the City (the "Water System"), and the City wishes to raise funds to finance additional improvements to the Water System, consisting generally of the acquisition and construction of surface water treatment facilities (the "Project");

2. The Authority has been formed for the purpose of assisting the City in the financing of public capital improvements, and in order to accomplish the financing plan described in the previous paragraph, the Authority and the City have entered into an Installment Sale Agreement dated as of October 1, 2010 (the "Installment Sale Agreement"), under which the Authority will acquire, construct and improve the Project and sell the completed Project to the City in consideration of the agreement by the City to pay the purchase price thereof in semiannual installment payments.

3. For the purpose of obtaining funds to obtain funds to finance the Project, the Authority has authorized the issuance of its Lodi Public Financing Authority 2010 Water Revenue Bonds, Series A in the aggregate principal amount of \$_____ (the "Series A Bonds") under this Indenture and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law").

4. For the purpose of obtaining funds to finance the Project in accordance with the terms hereof and of the Installment Sale Agreement, the Authority has authorized the issuance of its Lodi Public Financing Authority 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds - Direct Payment) in the aggregate principal amount of \$_____ (the "Series B Bonds") under this Indenture and under the provisions of the Bond Law.

5. The obligations of the City under the Installment Sale Agreement are secured by a pledge of and lien on the net revenues of the Water System.

6. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

7. The Authority has found and determines, and hereby affirms, that all acts and proceedings required by law necessary to make the Bonds, when executed by the

Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized.

A G R E E M E N T :

In order to secure the payment of the principal of and the interest and redemption premium (if any) on all the Outstanding Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority and the Trustee do hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in that Appendix when used in this Indenture. Capitalized terms in this Indenture and not otherwise defined in this Section 1.01 have the respective meanings given them in Section 1.1 of the Installment Sale Agreement.

SECTION 1.02. *Authorization.* Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words

“herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE BONDS

SECTION 2.01. *Authorization of Bonds.* The Authority has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The Authority hereby authorizes the issuance of a series of Bonds, designated the “Lodi Public Financing Authority 2010 Water Revenue Bonds, Series A in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to finance the Project. The Authority hereby authorizes the issuance of an additional series of Bonds, designated the “Lodi Public Financing Authority 2010 Water Revenue Bonds, Series B (Federally Taxable – Build America Bonds – Direct Payment)” in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to finance the Project. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law.

SECTION 2.02. *Terms of the Bonds.*

(a) Payment Provisions. The Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Bonds shall mature on June 1 in each of the years and in the amounts, and bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

Series A Bonds

Maturity Date <u>(June 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>
----------------------------------	----------------------------	-------------------------

Series B Bonds

Maturity Date <u>(June 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>
----------------------------------	----------------------------	-------------------------

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date

for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

SECTION 2.03. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section 2.03. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

(c) Limitations. The Trustee may refuse to transfer or exchange, under the provisions of this Section 2.03, any Bonds selected by the Trustee for redemption under Article IV, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

SECTION 2.04. *Book-Entry System.*

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the Authority and the Trustee has no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the Authority and the Trustee has no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the Authority elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the Authority to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the Authority of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the Authority shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Authority shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the Authority may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the Authority determines to terminate the Depository as such, then the Authority shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the Authority and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be

issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the Authority fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the Authority determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Authority may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the Authority shall cooperate with the Depository in taking appropriate action (y) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (z) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the Authority's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.05. *Registration Books.* The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

SECTION 2.06. *Form and Execution of Bonds.* The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The Chair of the Authority shall execute, and the Secretary of the Authority shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of the execution of such Bond are the proper officers of the Authority, duly authorized to execute debt instruments on behalf of the Authority, although on the date of such Bond any such person was not an officer of the Authority.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this indenture.

SECTION 2.07. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond is mutilated, the Authority, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this indenture with all other Bonds issued under this indenture.

Notwithstanding any other provision of this Section 2.07, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. *Issuance of the Bonds.* At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon the Written Request of the Authority, deliver the Bonds to the Original Purchaser.

SECTION 3.02. *Application of Proceeds of Sale of Series A Bonds.* Upon the receipt of payment for the Series A Bonds on the Closing Date, the Trustee shall apply the proceeds of sale thereof as follows:

- (a) The Trustee will deposit the amount of \$_____ in the Series A Costs of Issuance Fund.
- (b) The Trustee will deposit the amount of \$_____ in the Series A Subaccount of the Reserve Account, constituting a portion of the Reserve Requirement.

- (c) The Trustee will deposit the amount of \$_____, constituting the remainder of such proceeds, into the Series A Project Fund.

SECTION 3.03. *Application of Proceeds of Sale of Series B Bonds.* Upon the receipt of payment for the Series B Bonds on the Closing Date, the Trustee shall apply the proceeds of sale thereof as follows:

- (a) The Trustee will deposit the amount of \$_____ in the Series B Costs of Issuance Fund.
- (b) The Trustee will deposit the amount of \$_____ in the Series B Subaccount of the Reserve Account, constituting the remaining portion of the Reserve Requirement.
- (c) The Trustee will deposit the amount of \$_____ constituting the remainder of such proceeds, into the Series B Project Fund.

The Trustee may establish and maintain a temporary account to facilitate and record such deposits and transfers.

SECTION 3.04. *Establishment and Application of Costs of Issuance Funds.*

(a) Series A Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series A Costs of Issuance Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Series A Bonds under Section 3.02(a). The Trustee shall disburse amounts in the Series A Costs of Issuance Fund from time to time to pay the Costs of issuance of the Series A Bonds upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on the representations and certifications set forth in such Written Requisitions and shall be fully protected in relying thereon. All such payments shall be made by check or wire transfer in accordance with payment instructions contained in the Written Requisition or in any invoice attached thereto, and the Trustee has no duty or obligation to authenticate such payment instructions or the authorization thereof. On February 1, 2011, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Series A Costs of Issuance Fund to the Series A Project Fund (but only if the Series A Project Fund is then open and, if it is not open, to the Interest Account), and the Trustee shall thereupon close the Series A Costs of Issuance Fund.

(b) Series B Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series B Costs of Issuance Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Series B Bonds under Section 3.03(a). The Trustee shall disburse amounts in the Series B Costs of Issuance Fund from time to time to pay the Costs of Issuance of the Series B Bonds upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on the representations and certifications set forth in such Written

Requisitions and shall be fully protected in relying thereon. All such payments shall be made by check or wire transfer in accordance with payment instructions contained in the Written Requisition or in any invoice attached thereto, and the Trustee has no duty or obligation to authenticate such payment instructions or the authorization thereof. On February 1, 2011, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Series B Costs of Issuance Fund to the Series B Project Fund (but only if the Series B Project Fund is then open and, if it is not open, to the Interest Account), and the Trustee shall thereupon close the Series B Costs of Issuance Fund.

SECTION 3.05. *Project Funds.*

(a) Series A Project Fund. There is hereby established a separate fund to be known as the "Series A Project Fund," which shall be held by the Trustee hereunder and into which the Trustee shall deposit a portion of the proceeds of sale of the Series A Bonds under Section 3.02(d). Except as otherwise provided herein, moneys in the Series A Project Fund will be used solely for the payment of the Project Costs. The Trustee shall disburse moneys in the Series A Project Fund for the purpose of paying Project Costs (or to reimburse the City for payment of Project Costs) in accordance with Written Requisitions in the form of Appendix C filed by the City with the Trustee. Each such Written Requisition must state, with respect to each payment to be made thereby, (i) the name and address of the firm or corporation to whom payment is to be made, (ii) the amount and purpose of the payment and (iii) that each payment constitutes a Project Cost. Each Written Requisition must be accompanied by an invoice or statement evidencing each payment to be made thereunder. The Trustee has no responsibility for payments made in accordance with this Section 3.05. The City shall maintain accurate records showing all disbursements from the Series A Project Fund.

Upon the determination by the City under Section 3.5 of the Installment Sale Agreement that no further amounts are intended to be requisitioned from the Series A Project Fund, the City shall provide a Written Certificate to that effect to the Trustee and, upon receipt of the Written Certificate, the Trustee will thereupon close the Series A Project Fund and transfer all remaining amounts to the Interest Account to pay interest on the Series A Bonds. If and to the extent so directed in a Written Certificate, the Trustee shall apply all or a portion of the amounts so transferred from the Series A Project Fund to the Interest Account to the prepayment of Installment Payments under Section 7.2 of the Installment Sale Agreement and the corresponding redemption of the Series A Bonds under Section 4.01(a).

If an Event of Default occurs prior to the closure of the Series A Project Fund by the City, the Trustee shall transfer all amounts remaining on deposit in the Series A Project Fund to the Interest Account, to be credited to the payment of the Installment Payment then in default.

(b) Series B Project Fund. There is hereby established a separate fund to be known as the "Series B Project Fund," which shall be held by the Trustee hereunder and into which the Trustee shall deposit a portion of the proceeds of sale of the Series B Bonds under Section 3.03(c). Except as otherwise provided herein, moneys in the Series B Project Fund will be used solely for the payment of the Project Costs. The Trustee shall disburse moneys in the Series B Project Fund for the purpose of paying Project Costs (or to reimburse the City for payment of Project Costs) in accordance with Written Requisitions in the form of Appendix C filed by the City with the Trustee. Each

such Written Requisition must state, with respect to each payment to be made thereby, (i) the name and address of the firm or corporation to whom payment is to be made, (ii) the amount and purpose of the payment and (iii) that each payment constitutes a Project Cost. Each Written Requisition must be accompanied by an invoice or statement evidencing each payment to be made thereunder. The Trustee has no responsibility for payments made in accordance with this Section 3.05. The City shall maintain accurate records showing all disbursements from the Series B Project Fund.

Upon the determination by the City under Section 3.5 of the Installment Sale Agreement that no further amounts are intended to be requisitioned from the Series B Project Fund, the City shall thereupon close the Series B Project Fund and transfer all remaining amounts therein to the Trustee for deposit into the Interest Account to pay interest on the Series B Bonds. If and to the extent so directed in writing by a Written Certificate, the Trustee shall apply all or a portion of the amounts so transferred from the Series B Project Fund to the Interest Account to the prepayment of Installment Payments under Section 7.2 of the Installment Sale Agreement and the corresponding redemption of the Series B Bonds under Section 4.01(a).

If an Event of Default occurs prior to the closure of the Series B Project Fund by the City, the Trustee shall transfer all amounts remaining on deposit in the Series B Project Fund to the Interest Account, to be credited to the payment of the Installment Payment then in default.

SECTION 3.06. *Validity of Bonds.* The recital contained in the Bonds that the same are issued under the Constitution and laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. *Terms of Redemption.*

(a) Optional Redemption – Series A Bonds. The Series A Bonds maturing on or before June 1, ____, are not subject to optional redemption prior to their respective stated maturity dates. The Series A Bonds maturing on or after June 1, ____, are subject to redemption in whole, or in part at the Written Request of the Authority among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after June 1, ____, from any available source of funds, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

(b) Optional Redemption – Series B Bonds. The Series B Bonds maturing on or before June 1, _____, are not subject to optional redemption prior to their respective stated maturity dates. The Series B Bonds maturing on or after June 1, _____, are subject to redemption in whole, or in part at the Written Request of the Authority among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after June 1, _____, from any available source of funds, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

(c) The Authority shall give the Trustee written notice of its intention to redeem Bonds under this subsection (a), and the manner of selecting such Bonds for redemption from among the maturities thereof, in sufficient time to enable the Trustee to give notice of such redemption in accordance with Section 4.03.

(d) Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables; *provided, however*, that if some but not all of the Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Series A Bonds

Sinking Fund
Redemption Date
(June 1)

Principal Amount
To Be Redeemed

Series B Bonds

Sinking Fund
Redemption Date
(June 1)

Principal Amount
To Be Redeemed

(e) Extraordinary Optional Redemption of the Series B Bonds. The Series B Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority upon the occurrence of a Tax Law Change, from any source of available funds, in whole, or in part at the Written Request of the Authority among maturities on such basis as the Authority may designate and within a maturity as set forth below, on any date, at a redemption price equal to 100% of the principal amount of Series B Bonds called for redemption plus the Make-Whole Premium, if any, plus accrued interest to the date fixed for redemption. For purposes of this paragraph (e), the following capitalized terms have the meanings set forth below:

“Calculation Agent” means a commercial bank or an investment banking institution of national standing designated by the Authority.

“Comparable Treasury Issue” means the United States Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Series B Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series B Bond being redeemed.

“Comparable Treasury Price” means, with respect to any date on which a Series B Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time, at least three (3) Business Days but not more than forty-five (45) calendar days preceding the date fixed for redemption.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series B Bond being redeemed. The Comparable Treasury Yield will be determined at least three (3) Business Days but not more than forty-five (45) calendar days preceding the date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series B Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Series B Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series B Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are

not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

"Make-Whole Premium" means, with respect to any Series B Bond to be redeemed, an amount calculated by the Calculation Agent equal to the positive difference, if any, between:

(a) The sum of the present values, calculated as of the date fixed for redemption of:

(1) Each interest payment that, but for the redemption, would have been payable on the Series B Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such Series B Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled Interest Payment Date with respect to such Series B Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Series B Bond to the date fixed for redemption; plus

(2) The principal amount that, but for such redemption, would have been payable on the maturity date of the Series B Bond or portion thereof being redeemed; minus

(b) The principal amount of the Series B Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (a) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve (12) 30-day months) at a discount rate equal to the Comparable Treasury Yield, plus the Spread.

"Reference Treasury Dealer" means a primary dealer of United States Government securities appointed by the Authority and reasonably acceptable to the Calculation Agent.

"Spread" means ____% for extraordinary optional redemptions pursuant to this paragraph (e).

"Subsidy Payments" means the Refundable Credits.

"Tax Law Change" means legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental

agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Authority, would be to suspend, reduce or terminate the Subsidy Payments or any similar payments to state or local government issuers generally with respect to obligations of the general character of the Series B Bonds; provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by the Authority to comply with the requirements under the Code to receive such Subsidy Payments.

SECTION 4.02. *Selection of Bonds for Redemption.*

(a) Series A Bonds. Whenever provision is made in this Indenture for the redemption of less than all of the Series A Bonds of a single maturity, the Trustee shall select the Series A Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee shall treat each Series A Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Series A Bond.

(b) Series B Bonds. If the Series B Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Series B Bonds, if less than all of the Series B Bonds of a maturity are called for prior redemption, the particular Series B Bonds or portions thereof to be redeemed shall be selected by the Trustee on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures, provided that, so long as the Series B Bonds are held in book-entry form, the selection for redemption of such Series B Bonds shall be made by the Trustee in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Trustee pursuant to DTC operational arrangements. If the Trustee does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the Series B Bonds shall be selected for redemption by lot by the Trustee in accordance with DTC procedures. Redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Authority and the Beneficial Owners are to be made on a "Pro Rata Pass-Through Distribution of Principal" basis as described above. If the DTC operational arrangements do not allow for the redemption of the Series B Bonds on a Pro Rata Pass-Through Distribution of Principal basis as described above, then the Series B Bonds shall be selected for redemption by lot by the Trustee in accordance with DTC procedures.

If the Series B Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the Series B Bonds shall be effected by the Trustee among owners on a pro rata basis subject to minimum Authorized Denominations. The particular Series B Bonds to be redeemed shall be determined by the Trustee, using such method as it shall deem fair and appropriate.

SECTION 4.03. *Notice of Redemption; Rescission.* The Trustee shall mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Municipal Securities Rulemaking Board. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds

of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

The Authority has the right to rescind any notice of the redemption of Bonds under Section 4.01(a) by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Authority and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

SECTION 4.04. *Partial Redemption of Bonds.* Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

SECTION 4.05. *Effect of Redemption.* Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed under the provisions of this Article shall be canceled by the Trustee upon surrender thereof and destroyed in accordance with the retention policy of the Trustee then in effect.

ARTICLE V

AUTHORITY REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

SECTION 5.01. *Security for the Bonds; Bond Fund.*

(a) Pledge of Authority Revenues and Other Amounts. Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Authority Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under this Indenture are hereby pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of this Indenture. Said pledge constitutes a lien on and security interest in the Authority Revenues and such amounts and shall attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

(b) Assignment to Trustee. The Authority hereby irrevocably transfers, assigns and sets over to the Trustee, without recourse to the Authority, all of its rights in the installment Sale Agreement (excepting only the Authority's rights under Sections 4.8, 5.2 and 6.4 thereof), including but not limited to all of the Authority's rights to receive and collect all of the Installment Payments. The Trustee is entitled to collect and receive all of the Installment Payments, and any Installment Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee is also entitled to and shall, subject to the provisions of Article VIII, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Installment Sale Agreement.

(c) Deposit of Authority Revenues in Bond Fund. All Authority Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such funds. All Authority Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under Article X, and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

SECTION 5.02. *Allocation of Authority Revenues.* On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority:

- (a) Deposit to Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate

amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

- (b) Deposit to Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).
- (c) Deposit to Reserve Account. The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement. In the event the Authority Revenues are insufficient to fund the required deposit to the Reserve Account in its entirety, amounts shall be allocated between the Series A Subaccount and the Series B Subaccount on a pro rata basis.

SECTION 5.03. *Interest Account.* All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

SECTION 5.04. *Principal Account.* All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates, and the principal amount of Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

SECTION 5.05. *Reserve Account.* There is hereby established a Reserve Account to be held by the Trustee, and within the Reserve Account a Series A Subaccount and a Series B Subaccount.

(a) Transfers to Pay Debt Service on Bonds and Parity Debt. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying interest on or principal of the Bonds, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, (ii) paying the redemption price of any Term Bonds to be redeemed under Section 4.01(b) in the event that amounts on deposit in the Principal Account are not sufficient for such purpose, and (iii) paying debt service on any issue of Parity Debt for which a reserve fund is established as part of a common reserve fund for the Bonds and such Parity Debt, as provided in Section 5.8(c) of the Installment Sale Agreement. On the date on which all Bonds are retired hereunder or provision is made therefor under Article X, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Installment Payments, but only to the extent that such withdrawal will not cause the amounts held on deposit in the respective reserve funds established for outstanding Parity Debt to fall below the amount of Maximum Annual Debt Service on all such issues of outstanding Parity Debt.

The Reserve Account shall be deemed to be held for the equal and proportionate benefit of the Owners of the Bonds and the owners of all outstanding Parity Debt (excluding Parity Debt for which no reserve fund is established as provided in Section 5.8(c) of the Installment Sale Agreement). The Authority and the Trustee shall execute and deliver all such amendments to this Indenture as shall be required, in the opinion of Bond Counsel, to implement such modification of the terms and provisions upon which the Reserve Account is held and administered hereunder.

(b) Deposit of Qualified Reserve Account Credit Instrument. The Authority has the right at any time to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (a) a Qualified Reserve Account Credit Instrument; and (b) an opinion of Bond Counsel stating that such release will not, of itself, cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, the Trustee shall transfer such funds from the Reserve Account to the Authority or the City, for deposit into a separate account to be maintained by the Authority or the City, to be expended on capital improvements relating to the Water System. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall be obligated either (a) to replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (b) to deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from amounts transferred to the Trustee by the City for such purpose under Section 4.5(b)(iii) of the Installment Sale Agreement.

(c) Application of Surplus Amounts. Any amounts on deposit in the Reserve Account at any time in excess of the Reserve Requirement shall be transferred to the Bond Fund. Surplus amounts transferred from the Series A Subaccount shall be used to pay debt service on the Series A Bonds and surplus amounts transferred from the Series B Subaccount shall be used to pay debt service on the Series B Bonds.

(d) Notice of Deficiency. If the Trustee has actual knowledge that the amount on deposit in the Reserve Account at any time falls below the Reserve Requirement due to transfers being made to the Interest Account or the Principal Account under this Section 5.05, the Trustee shall promptly notify the Authority and the City of that fact.

SECTION 5.06. *Application of Redemption Fund.* Upon the determination by the Authority to redeem any Bonds under Section 4.01(a), the Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Authority Revenues received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under Section 4.01(a). At any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds. The Trustee is entitled to conclusively rely on any Written Request of the Authority received under this Section 5.06, and is fully protected in relying thereon.

SECTION 5.07. *Investments.* Except as otherwise set forth in this Indenture, moneys in any of the funds or accounts established with the Trustee under this Indenture shall be invested by the Trustee solely in Permitted Investments. Such

investments shall be directed by the Authority under a Written Request of the Authority filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments designated in paragraph (c) of the definition. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be retained in such fund or account, *provided, however,* that earnings on the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and any excess will be transferred as follows: (a) prior to the completion of the Project, evidenced by the filing of a certificate of the City under Section 3.5 of the Installment Sale Agreement, such excess in the Series A Reserve Subaccount will be deposited into the Series A Project Fund and such excess in the Series B Subaccount will be deposited in the Series B Project Fund, and (b) following the completion of the Project, all of such excess will be deposited into the Bond Fund as set forth in Section 5.05(c). For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under this Section 5.07.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority a periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

SECTION 5.08. *Valuation and Disposition of Investments.*

(a) Except as otherwise provided in subsection (b) of this Section, the Authority covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued at the Fair Market Value thereof as such term is defined in subsection (d) below. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Authority in any Written Request of the Authority.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and investments in the Reserve Account shall be valued at cost thereof, (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the Authority shall inform the Trustee which funds (other than the Reserve Account) are subject to a yield restriction.

(c) Except as provided in the preceding subsection (b), for the purpose of determining the amount in any fund or account established hereunder, the value of Permitted Investments credited to such fund shall be valued by the Trustee at least annually on or before May 15. The Trustee may sell or present for redemption, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

(d) For purposes of this Section 5.09, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

(e) To the extent of any valuations made by the Trustee hereunder, the Trustee may utilize and rely upon computerized securities pricing services that may be available to it, including those available through its regular accounting system.

ARTICLE VI

COVENANTS OF THE AUTHORITY

SECTION 6.01. *Punctual Payment.* The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of the Authority Revenues and other amounts pledged for such payment as provided in this Indenture.

SECTION 6.02. *Extension of Payment of Bonds.* The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in this Section 6.02 limits the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

SECTION 6.03. *Against Encumbrances.* The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Authority Revenues and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

SECTION 6.04. *Power to Issue Bonds and Make Pledge and Assignment.* The Authority is duly authorized under law to issue the Bonds and to enter into this Indenture and to pledge and assign the Authority Revenues and other amounts purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Authority Revenues and other assets and all the rights of the Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

SECTION 6.05. *Accounting Records.* The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established under this Indenture. The Trustee shall make such books of record and account available for inspection by the Authority and the City, during business hours, upon reasonable notice, and under reasonable circumstances.

SECTION 6.06. *Limitation on Additional Obligations.* The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Authority Revenues.

SECTION 6.07. *Tax Covenants.*

(a) Private Business Use Limitation. The Authority shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The Authority shall take all actions necessary to assure the exclusion of interest on the Series A Bonds from the gross income of the Owners of the Series A Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The Authority shall calculate or cause to be calculated all amounts of Excess Investment Earnings which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The Authority shall pay when due an amount equal to Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any amounts provided by the City for that purpose under Section 4.8(e) of the Installment Sale Agreement. The Authority shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e).

(9) Designation of Series B Bonds as Build America Bonds. The Authority hereby irrevocably elects to apply the provisions of Section 54AA(d) of the Tax Code to the Series B Bonds and intends that the Series B Bonds be treated as Build America Bonds. In addition, the Authority hereby irrevocably elects to treat the Series B Bonds as “Qualified Bonds” within the meaning of Section 54AA(g)(2) of the Tax Code such that the Series B Bonds will be eligible for direct payment by the federal government of the Refundable Credits.

(g) Financing Capital Expenditures, No Working Capital. All amounts in excess of Available Project Proceeds (other than Available Project Proceeds deposited in the

Reserve Account) will be spent on capital expenditures with a reasonably expected economic life of one year or more.

(h) Limitation on Issuance Costs. No proceeds of the Series B Bonds and investment earnings thereon, in an amount in excess of 2% of the proceeds of the sale of the Series B Bonds, will be used to pay Costs of Issuance of the Series B Bonds. If the fees of the Original Purchaser of the Series B Bonds are retained as a discount on the purchase of the Series B Bonds, such retention shall be deemed to be an expenditure of proceeds of the Series B Bonds for said fees. No proceeds of the Series B Bonds will be used to pay Costs of Issuance of the Series A Bonds and no proceeds of the Series A Bonds will be used to pay Costs of Issuance of the Series B Bonds.

(i) Expenditure of Proceeds to Assure Series B Bonds Are Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Series B Bonds are expended and all federal tax requirements are met so as to cause the Series B Bonds to be treated as Build America Bonds and Qualified Bonds and therefore be eligible for the Refundable Credits.

SECTION 6.08. *Enforcement of Installment Sale Agreement.* The Trustee shall promptly collect all amounts (to the extent any such amounts are available for collection) due from the City under the Installment Sale Agreement. Subject to the provisions of Article VIII, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Installment Sale Agreement.

SECTION 6.09. *Waiver of Laws.* The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.10. *Further Assurances.* The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. *Events of Default.* The following events constitute Events of Default hereunder:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee; *provided, however*, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the Authority institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in the Installment Sale Agreement.

SECTION 7.02. *Remedies Upon Event of Default.* If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority deposits with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its legal counsel, including the allocated costs of internal attorneys) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

SECTION 7.03. *Application of Authority Revenues and Other Funds After Default.* If an Event of Default occurs and is continuing, all Authority Revenues and any

other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee in the following order of priority:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal attorneys) incurred in and about the performance of its powers and duties under this Indenture;
- (b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of this Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

SECTION 7.04. *Trustee to Represent Bond Owners.* The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture and applicable provisions of any law. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of this Indenture.

SECTION 7.05. *Limitation on Bond Owners' Right to Sue.* Notwithstanding any other provision hereof, no Owner of any Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Installment Sale Agreement or any other applicable law with respect to such Bonds, unless (a) such Owner has given to the Trustee written

notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, this Indenture, the Installment Sale Agreement or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.06. *Absolute Obligation of Authority.* Nothing in Section 7.06 or in any other provision of this Indenture or in the Bonds contained affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as herein provided, but only out of the Authority Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.07. *Termination of Proceedings.* In case any proceedings taken by the Trustee or by any one or more Bond Owners on account of any Event of Default have been discontinued or abandoned for any reason or have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

SECTION 7.08. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. *No Waiver of Default.* No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Owners of the

Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or the Bond Owners.

SECTION 7.10. *Notice to Bond Owners of Default.* Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall promptly give written notice thereof by first class mail, postage prepaid, to the Owner of each Outstanding Bond, unless such Event of Default has been cured before the giving of such notice; *provided, however* that except in the case of an Event of Default described in Sections 7.01(a) or 7.01(b), the Trustee may elect not to give such notice to the Bond Owners if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. *Appointment of Trustee.* The Bank of New York Mellon Trust Company, N.A. is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this Article VIII so long as any Bonds are Outstanding.

SECTION 8.02. *Acceptance of Trusts; Removal and Resignation of Trustee.* The Trustee hereby accepts the express trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Indenture and no implied duties or covenants shall be read into this Indenture against the Trustee. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and shall remove the Trustee (a) if at any time requested to do so by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (b) if at any time the Trustee ceases to be eligible in accordance with Section 8.02, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation,

conservation or liquidation. Any such removal shall be made upon at least 30 days' prior written notice to the Trustee.

- (c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books.
- (d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. In the event of the removal or resignation of the Trustee under subsections (b) or (d), respectively, the Authority shall promptly appoint a successor Trustee.

If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture, must signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and after payment by the Authority of all unpaid fees and expenses of the predecessor Trustee, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein. At the Written Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall promptly mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

- (e) Any Trustee appointed under this Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, shall be authorized under such laws to exercise corporate trust

powers, shall have (or, in the case of a corporation or association that is a member of a bank holding company system, the related bank holding company has) a combined capital and surplus of at least \$50,000,000, and shall be subject to supervision or examination by a federal or state agency, so long as any Bonds are Outstanding. If such corporation or association publishes a report of condition at least annually under law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection (e), the combined capital and surplus of such corporation or association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If the Trustee at any time ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

- (9) Notwithstanding any other provision of this Indenture, the Trustee may be removed at any time for any breach of the trust set forth herein.

SECTION 8.03. *Merger or Consolidation.* Any national banking association, bank, federal savings association, or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any national banking association, bank, federal savings association, or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any national banking association, bank, federal savings association, or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such national banking association, bank, federal savings association, or trust company shall be eligible under subsection (e) of Section 8.02 shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.04. *Liability of Trustee.*

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture, the Bonds or the Installment Sale Agreement, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations of Trustee herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture or assigned to it hereunder.

(d) The Trustee is not liable for any action taken by it and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until it shall have actual knowledge thereof, or a corporate trust officer shall have received written notice thereof at its Office from the City, the Authority or the Owners of at least 25% in aggregate principal amount of the Outstanding Bonds. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions, covenants or agreements herein, under the Installment Sale Agreement or the Bonds or of any of the documents executed in connection with the Bonds, or as to the existence of a default or an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City or the Authority of the terms, conditions, covenants or agreements set forth in the Installment Sale Agreement, other than the covenants of the City to make Installment Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee thereunder.

(9) No provision of this Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents, receivers or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, receiver or attorney appointed with due care by it hereunder.

(h) The Trustee has no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of the Bond Owners under this Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including but not limited to fees and expenses of its attorneys) which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(i) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of Section 8.02(a), this Section 8.04 and Section 8.05, and shall be applicable to the assignment of any rights to the Trustee hereunder.

(j) The Trustee is not accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions hereof.

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Sale Agreement or this Indenture for the existence, furnishing or use of the Project.

(l) The Trustee has no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or the City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the City agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

SECTION 8.05. *Right to Rely on Documents.* The Trustee shall be protected and shall incur no liability in acting or refraining from acting in reliance upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee is under no duty to make any investigation or inquiry as to any statements contained or matter referred to in any paper or document but may accept and conclusively rely upon the same as conclusive evidence of the truth and accuracy of any such statement or matter and shall be fully protected in relying thereon. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate, Written Request or Written Requisition of the Authority or the City, and such Written Certificate, Written Request or Written Requisition shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture in reliance upon such Written Certificate, Written Request or Written Requisition, and the Trustee shall be fully protected in relying thereon, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

SECTION 8.06. *Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of this Indenture shall be retained in its respective possession and in accordance with its retention policy then in effect and shall, upon reasonable notice to Trustee, be subject to the inspection of the Authority, the City and any Bond Owner, and their agents and representatives duly authorized in writing, during business hours and under reasonable conditions as agreed to by the Trustee.

SECTION 8.07. *Compensation and Indemnification.* The Authority shall pay to the Trustee from time to time, on demand, the compensation for all services rendered under this Indenture and also all reasonable expenses, advances (including any interest on advances), charges, legal (including outside counsel and the allocated costs of internal attorneys) and consulting fees and other disbursements, incurred in and about the performance of its powers and duties under this Indenture.

The Authority shall indemnify the Trustee, its officers, directors, employees and agents against any cost, loss, liability or expense whatsoever (including but not limited to fees and expenses of its attorneys) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust and this Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder or under the Installment Sale Agreement. As security for the performance of the obligations of the Authority under this Section 8.07, the Trustee shall have a lien

prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such. The rights of the Trustee and the obligations of the Authority under this Section 8.07 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture and the Installment Sale Agreement.

ARTICLE IX

MODIFICATION OR AMENDMENT HEREOF

SECTION 9.01. *Amendments Permitted.*

(a) Amendments With Owner Consent. This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee. No such modification or amendment may (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Authority Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by this Indenture on such Authority Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) Amendments Without Owner Consent. This Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in this Indenture contained, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;
- (ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority deems necessary or desirable, provided that such

modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

- (iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
- (iv) to modify, amend or supplement this Indenture in such manner as to assure that the interest on the Series A Bonds remains excluded from gross income under the Tax Code, or that the Series B Bonds remain Build America Bonds and that the Authority remains entitled to collect the Refundable Credits under the Tax Code;
- (v) to facilitate the delivery of a Qualified Reserve Account Credit Instrument under Section 5.05(b); or
- (vi) to modify the terms and provisions upon which the Reserve Account is held and administered hereunder, as may be required in the opinion of Bond Counsel so that the Reserve Account is held for the equal and proportionate benefit of the Owners of the Bonds and the owners of all outstanding Parity Debt.

(c) Limitation. The Trustee is not obligated to enter into any Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Bond Counsel Opinion Requirement. Prior to the Trustee entering into any Supplemental Indenture hereunder, the Authority shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect (i) with respect to the Series A Bonds, the exclusion of interest from gross income for purposes of federal income taxes and (ii) with respect to the Series B Bonds, the qualification of the Series B Bonds as Build America Bonds and the entitlement of the Authority to collect the Refundable Credits.

(e) Notice of Amendments. The Authority shall deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 9.01.

SECTION 9.02. *Effect of supplemental Indenture*. Upon the execution of any Supplemental Indenture under this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of

any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. *Endorsement of Bonds; Preparation of New Bonds.* Bonds delivered after the execution of any supplemental Indenture under this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

SECTION 9.04. *Amendment of Particular Bonds.* The provisions of this Article IX do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

ARTICLE X

DEFEASANCE

SECTION 10.01. *Discharge of Indenture.* Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or
- (c) by delivering all of such Bonds to the Trustee for cancellation.

If the Authority also pays or causes to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, this Indenture and the pledge of Authority Revenues and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to Section 10.02. In

such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by it under this Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption. The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

SECTION 10.02. *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

Notwithstanding anything to the contrary in this Article X, in the event of defeasance of all Outstanding Bonds, such defeasance will not operate to discharge any of the following:

- (a) the obligation of the Trustee to transfer and exchange Bonds hereunder,
- (b) the obligation of the Authority to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and
- (c) the obligations of the Authority to compensate and indemnify the Trustee under Section 8.07.

The Authority may at any time surrender to the Trustee, for cancellation by Trustee, any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 10.03. *Deposit of Money or Securities with Trustee.* Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under this Indenture and shall be:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the

giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or

- (b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above). The Trustee shall be entitled to conclusively rely on such Written Request or opinion and shall be fully protected, in each case, in relying thereon.

SECTION 10.04. *Unclaimed Funds.* Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall (at the cost of the Authority) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. *Liability of Authority Limited to Authority Revenues* . Notwithstanding anything in this Indenture or in the Bonds contained, the Authority is not required to advance any moneys derived from any source other than the Authority Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

SECTION 11.02. *Limitation of Rights to Parties and Bond Owners*. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

SECTION 11.03. *Funds and Accounts*. Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under this Indenture.

SECTION 11.04. *Waiver of Notice; Requirement of Mailed Notice*. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice is required to be given by mail, such requirement may be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

SECTION 11.05. *Destruction of Bonds*. Whenever in this Indenture provision is made for the cancellation by the Trustee, and the delivery to the Authority, of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and at the written request of the Authority the Trustee shall deliver a certificate of such destruction to the Authority.

SECTION 11.06. *Severability of Invalid Provisions*. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such

invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 11.07. Notices. All notices or communications to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by telephone, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the Authority
or the City:*

City of Lodi
P.O. Box 3006
Lodi, California 95241-1910
Attention: Deputy City Manager/
Internal Services Director
Fax: 209-333-6807

If to the Trustee:

The Bank of New York Mellon Trust Company,
N.A. 550 Kearny Street, Suite 600
San Francisco, California 94108
Attention: Corporate Trust Department

SECTION 11.08. Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the Authority if made in the manner provided in this Section 11.08.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

SECTION 11.09. *Disqualified Bonds.* In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City or any other obligor on the Bonds. In case of a dispute as to such right, the Trustee shall be entitled to rely upon the advice of counsel in any decision by Trustee and shall be fully protected in relying thereon.

Upon request, the Authority shall specify to the Trustee those Bonds disqualified under this Section 11.09.

SECTION 11.10. *Money Held for Particular Bonds.* The money held by the Trustee for the payment of the interest, premium, if any, or principal due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, *subject, however,* to the provisions of Section 10.04 but without any liability for interest thereon.

SECTION 11.11. *Waiver of Personal Liability.* No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.12. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Indenture either the Authority, the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority, the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.13. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.14. *Payment on Non-Business Day.* In the event any payment is required to be made hereunder on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and with the same effect as if made on such preceding non-Business Day.

SECTION 11.15. *Governing Law.* This Indenture shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the LODI PUBLIC FINANCING AUTHORITY has caused this Indenture to be signed in its name by its Executive Director and attested to by its Secretary, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

LODI PUBLIC FINANCING AUTHORITY

By _____
Executive Director

Attest:

Secretary

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A. THE BANK OF
NEW YORK MELLON TRUST COMPANY,
N.A., as Trustee**

By _____
Authorized Officer

APPENDIX A

DEFINITIONS

“Authority” means the Lodi Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California.

“Authority Revenues” means: (a) all of the Installment Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

“Authorized Representative” means: (a) with respect to the Authority, its Executive Director, Treasurer, Secretary or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Executive Director, General Counsel or Treasurer and filed with the City and the Trustee; and (b) with respect to the City, its City Manager, Deputy City Manager/Internal Services Director, City Attorney or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its City Manager or Deputy City Manager/Internal Services Director and filed with the Authority and the Trustee.

“Available Project Proceeds” means (i) the proceeds from the sale of the Series B Bonds, (ii) less Costs of Issuance of the Series B Bonds paid from proceeds of the sale of the Series B Bonds (not exceeding 2% of the proceeds of the sale of the Series B Bonds), plus (iii) investment earnings on the difference between (i) - (ii).

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the City or the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee under Section 5.01.

“Bond Law” means the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bond Year” means each twelve-month period extending from June 2 in one calendar year to June 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including June 1, 2011.

“Bonds” means, collectively, the Series A Bonds and the Series B Bonds.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the City in which the Office of the Trustee is located.

"Closing Date" means _____, 2010, being the date of delivery of the Bonds to the Original Purchaser.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee's first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Depositow" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository under Section 2.04.

"Depository Svstem Participant" means any participant in the Depository's book-entry system.

"City" means the City of Lodi, a municipal corporation organized and existing under the laws of the State of California.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Event of Default" means any of the events specified in Section 7.01.

"Excess Investment Earnings" means, with respect to the Series A Bonds or the Series B Bonds, an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Series A Bonds or the Series B Bonds, as the case may be, at a yield in excess of the yield on such Bonds.

"Federal Securities" means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period.

"Indenture" means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

"Interest Account" means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

"Installment Sale Agreement" means the Installment Sale Agreement dated as of October 1, 2010, between the City and the Authority, together with any duly authorized and executed amendments thereto.

"Installment Payments" means all payments required to be paid by the City on any date under Section 4.4 of the Installment Sale Agreement, including any amounts payable upon delinquent installments and including any prepayment thereof under Sections 7.2 or 7.3 of the Installment Sale Agreement.

"Interest Payment Date" means each December 1 and June 1, commencing June 1, 2011, so long as any Bonds remain unpaid.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Nominee" means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.04(a).

"Office" means the corporate trust office of the Trustee in San Francisco, California, or such other or additional offices as the Trustee may designate in writing to the Corporation from time to time as the corporate trust office for purposes of this Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporation trust agency business is conducted.

"Original Purchaser" means Stone & Youngberg LLC, as original purchaser of the Bonds at the negotiated sale thereof.

"Outstanding", when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under this Indenture.

"Owner", whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"Permitted Investments" means any of the following which at the time of investment are determined by the Authority to be legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall be entitled to rely conclusively upon any such determination by the Authority):

- (a) Federal Securities.
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any federal agencies whose obligations are backed by the full faith and credit of the United States of America.

- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by S&P (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (d) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A or better by S&P, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral.
- (e) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation.
- (f) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated AA or better from S&P, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating from S&P falls below AA.
- (g) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

"Principal Account" means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

"Project" means the improvements to the Water System which are acquired and constructed from amounts held in the Project Fund in accordance with the Installment Sale Agreement.

"Project Costs" means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;

- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- (e) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (f) all Costs of Issuance of the Bonds and other financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- (g) the interest components of the Installment Payments allocable to the Project or any component thereof, which come due during the period of acquisition, construction and installation of the Project or such component.

"Qualified Reserve Account Credit Instrument" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee under Section 5.05(b), provided that all of the following requirements are met:

- (a) the long-term credit rating of such bank or insurance company is **AA** or better from S&P;
- (b) such letter of credit or surety bond has a term of at least 12 months;
- (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released under Section 5.05(b); and
- (d) the Trustee is authorized under the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required under Section 5.05(a).

"Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established and held by the Trustee under Section 5.06.

"Refundable Credits" means the amounts (if any) which are payable to the issuer of Build America Bonds by the federal government under Section 6431 of the Tax Code, which the issuer of such Build America Bonds elects to receive under Section 54AA(g)(1) of the Tax Code.

"Registration Books" means the records maintained by the Trustee under Section 2.05 for the registration and transfer of ownership of the Bonds.

"Reserve Account" means the account by that name established and held by the Trustee in the Bond Fund established under Section 5.02.

"Reserve Reauirement" means with respect to the Bonds, as of the date of calculation, an amount equal to the least of (i) maximum annual Installment Payments, (ii) 125% of average annual Installment Payments or (iii) 10% of the original principal amount of the Installment Payments.

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority designates in written notice filed with the Trustee.

"Series A Bonds" means the \$_____ aggregate principal amount of Lodi Public Financing Authority 2010 Water Revenue Bonds, Series A authorized by and at any time Outstanding under this Indenture.

"Series A Costs of Issuance Fund" means the fund by that name established and held by the Trustee under Section 3.04(a).

"Series B Bonds" means the \$_____ aggregate principal amount of Lodi Public Financing Authority 2010 Water Revenue Bonds, Series B (Federally Taxable – Build America Bonds – Direct Payment) authorized by and at any time Outstanding under this Indenture.

"Series B Costs of Issuance Fund" means the fund by that name established and held by the Trustee under Section 3.04(b).

"Series A Proiect Fund" means the fund of that name established and held by the City pursuant to Section 3.05(a).

"Series A Reserve Subaccount" means the subaccount of that name established and held by the Trustee in the Reserve Account.

"Series B Proiect Fund" means the fund of that name established and held by the City pursuant to Section 3.05(b).

"Series B Reserve Subaccount" means the subaccount of that name established and held by the Trustee in the Reserve Account.

"S&P" means Standard & Poor's, a division of the McGraw Hill Companies, of New York, New York, its successors and assigns.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Tax Code" means the Internal Revenue Code of 1986 in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

"Term" means, when used with respect to the Installment Sale Agreement, the time during which the Installment Sale Agreement is in effect, as provided in Section 4.2 thereof.

"Term Bonds" means, collectively, (a) the Series A Bonds maturing on June 1, _____, and (b) the Series B Bonds maturing on June 1, _____.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor or successors, as Trustee hereunder as provided in Article VIII.

"Written Certificate," "Written Request" and "Written Requisition" of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

APPENDIX B

SERIES A BOND FORM

NO. R-_____

\$_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

**LODI PUBLIC FINANCING AUTHORITY
2010 WATER REVENUE BOND,
SERIES A**

INTEREST RATE: _____% MATURITY DATE: June 1, _____ ORIGINAL ISSUE DATE: _____ 2010 CUSIP: _____

REGISTERED OWNER: CEDE & CO

PRINCIPAL AMOUNT: ***

The LODI PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before May 15, 2011, in which event it shall bear interest from the Original Issue Date specified above; *provided, however*, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, at the Interest Rate per annum specified above, payable semiannually on June 1 and December 1 in each year, commencing June 1, 2011 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of The Bank of New

York Mellon Trust Company, N.A., as trustee (the "Trustee"), in Los Angeles, California, or such other place as designated by the Trustee (the "Trust Office"). Interest hereon is payable by check of the Trustee mailed on the applicable Interest Payment Date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee as of such Record Date by a registered owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States designated by such registered owner in such written request.

This Bond is not a debt of the City of Lodi (the "City"), the County of San Joaquin, the State of California, or any of its political subdivisions, and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Bond be payable out of any funds or properties of the Authority other than the Authority Revenues.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Lodi Public Financing Authority 2010 Water Revenue Bonds, Series A (the "Series A Bonds"), in an aggregate principal amount of \$_____, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued under the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and under an Indenture of Trust dated as of October 1, 2010, between the Authority and the Trustee (the "Indenture"), and a resolution of the Authority adopted on _____, 2010, authorizing the issuance of the Series A Bonds and the Lodi Public Financing Authority 2010 Water Revenue Bonds, Series B (Federally Taxable - Build America Bonds - Direct Payment) issued by the Authority under the Indenture in the aggregate principal amount of \$_____ (the "Series B Bonds"). Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Series A Bonds and the Series B Bonds (collectively, the "Bonds") are issued, the provisions with regard to the nature and extent of the security for the Bonds, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Series A Bonds have been issued by the Authority to finance improvements to the water supply, treatment and distribution system of the City (the "Water System"). The Bonds are special obligations of the Authority which are payable from and secured by a charge and lien on the Authority Revenues as defined in the Indenture, consisting principally of installment payments made by the City under an Installment Sale Agreement dated as of October 1, 2010, between the Authority and the City (the "Installment Sale Agreement"). As and to the extent set forth in the Indenture, all of the Authority Revenues are exclusively and irrevocably pledged in accordance with the terms of the Indenture to the payment of the principal of and interest and premium (if any) on the Bonds.

The rights and obligations of the Authority and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall extend the fixed

maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

The Series A Bonds maturing on or before June 1, _____, are not subject to optional redemption prior to their respective stated maturities. The Series A Bonds maturing on or after June 1, _____, are subject to redemption at the option of the Authority as a whole, or in part among maturities on such basis as determined by the Authority and by lot within a maturity, on any date on or after June 1, _____, from any available source of funds, at a redemption price equal to 100% of the principal amount of the Series A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The Series A Bonds maturing on June 1, _____, are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following table; *provided, however,* that if some but not all of such Series A Bonds have been redeemed under the redemption provision described in the preceding paragraph, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Series A Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Sinking Fund
Redemption Date
(June 1)

Principal Amount
To Be Redeemed

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 30 nor more than 60 days prior to the redemption date to the respective owners of any Series A Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption. The Authority has the right to rescind any optional redemption notice as set forth in the Indenture.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Series A Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. This Bond may be exchanged at the Trust Office for Series A Bonds

of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Authority or the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified by the Authority that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond is not entitled to any benefit under the Indenture or valid or obligatory for any purpose until the certificate of authentication hereon endorsed has been manually signed by the Trustee.

IN WITNESS WHEREOF, the Lodi Public Financing Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chair and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

LODI PUBLIC FINANCING AUTHORITY

By: _____
Chair

Attest:

Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated: _____

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.** *The Bank of New
York Mellon Trust Company, N.A., as
Trustee*

By: _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____ whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby _____ irrevocably constitute(s) _____ and appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

SERIES B BOND FORM

NO. R-_____

\$_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

LODI PUBLIC FINANCING AUTHORITY **2010 WATER REVENUE BOND, SERIES B** (Federally Taxable – Build America Bonds – Direct Payment)

INTEREST RATE: _____% MATURITY DATE: June 1, _____ ORIGINAL ISSUE DATE: _____, 2010 CUSIP: _____

REGISTERED OWNER: CEDE & CO

PRINCIPAL AMOUNT: ***

The LODI PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before March 15, 2011, in which event it shall bear interest from the Original Issue Date specified above; provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, at the Interest Rate per annum specified above, payable semiannually on June 1 and December 1 in each year, commencing June 1, 2011 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), in Los Angeles, California, or such other place as designated by the Trustee (the "Trust Office"). Interest hereon is payable by check of the Trustee mailed on the applicable Interest Payment Date to the Registered Owner hereof at the Registered Owner's address as it appears on the

registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee as of such Record Date by a registered owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States designated by such registered owner in such written request.

This Bond is not a debt of the City of Lodi (the "City"), the County of San Joaquin, the State of California, or any of its political subdivisions, and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Bond be payable out of any funds or properties of the Authority other than the Authority Revenues.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Lodi Public Financing Authority 2010 Water Revenue Bonds, Series B (Taxable - Build America Bonds - Direct Payment), in an aggregate principal amount of \$_____ (the "Series B Bonds"), all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued under the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and under an Indenture of Trust dated as of October 1, 2010, between the Authority and the Trustee (the "Indenture") and a resolution of the Authority adopted on _____, 2010, authorizing the issuance of the Bonds and the Lodi Public Financing Authority 2010 Water Revenue Bonds, Series A issued by the Authority under the Indenture in the aggregate principal amount of \$_____ (the "Series A Bonds"). Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Series A Bonds and the Series B Bonds (collectively, the "Bonds") are issued, the provisions with regard to the nature and extent of the security for the Bonds, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Series B Bonds have been issued by the Authority to finance improvements to the water supply, treatment and distribution system of the City (the "Water System"). The Bonds are special obligations of the Authority which are payable from and secured by a charge and lien on the Authority Revenues as defined in the Indenture, consisting principally of installment payments made by the City under an Installment Sale Agreement dated as of October 1, 2010, between the Authority and the City (the "Installment Sale Agreement. As and to the extent set forth in the Indenture, all of the Authority Revenues are exclusively and irrevocably pledged in accordance with the terms of the Indenture to the payment of the principal of and interest and premium (if any) on the Bonds.

The rights and obligations of the Authority and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

The Series B Bonds are subject to redemption at the option of the Authority as a whole, or in part among maturities on such basis as determined by the Authority and by lot within a maturity, on any date on or after June 1, _____, from any available source of funds, at a redemption price equal to 100% of the principal amount of the Series B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The Series B Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following table; provided, however, that if some but not all of the Series B Bonds have been redeemed under the redemption provision described in the preceding paragraph, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Series B Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Sinking Fund
Redemption Date
{June 1}

Principal Amount
To Be Redeemed

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 30 nor more than 60 days prior to the redemption date to the respective owners of any Series B Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption. The Authority has the right to rescind an optional redemption notice as set forth in the Indenture.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Series B Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in

exchange herefor. This Bond may be exchanged at the Trust Office for Series B Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Authority or the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified by the Authority that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Ordinance or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond is not entitled to any benefit under the Indenture or valid or obligatory for any purpose until the certificate of authentication hereon endorsed has been manually signed by the Trustee.

IN WITNESS WHEREOF, the Lodi Public Financing Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chair and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

LODI PUBLIC FINANCING AUTHORITY

By: _____
Chair

Attest:

Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated: _____

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.** The Bank of New
York Mellon Trust Company, N.A., as
Trustee

By: _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto
_____ whose address and social security or other
tax identifying number is _____, the within-mentioned Bond and
hereby irrevocably constitute(s) _____ and appoint(s)
_____ attorney, to transfer the same on the
registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

Note: Signature guarantee shall be made by a
guarantor institution participating in the Securities
Transfer Agents Medallion Program or in such other
guarantee program acceptable to the Trustee.

Note: The signature(s) on this Assignment must
correspond with the name(s) as written on the face of
the within Bond in every particular without alteration or
enlargement or any change whatsoever.

FORM OF PROJECT FUND REQUISITION

\$ _____
Lodi Public Financing Authority
2010 Water Revenue Bonds, Series B
(Federally Taxable - Build America Bonds -
Direct Payment)

herein is due and payable under a purchase order, contract or other authorization; and
(iii) the amount requested will be applied for a Project Cost.

Dated: _____, 20__

CITY OF LODI

By: _____

Schedule A

Payee Name*	Payee Address	Amount Reauested	Description of Proiect Cost	Payment by Wire or US Mail

* Invoice or statement is attached.
 ** See attached invoice.

RESOLUTION NO. 2010-173

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
DOCUMENTS AND OFFICIAL ACTIONS RELATING TO THE
INSTALLMENT SALE FINANCING OF WATER SYSTEM
IMPROVEMENTS AND THE ISSUANCE AND SALE OF WATER
REVENUE BONDS BY THE LODI PUBLIC FINANCING AUTHORITY

=====

WHEREAS, the City of Lodi (the "City") owns and operates facilities and property for the supply, treatment, and distribution of water within the service area of the City (the "Water System"); and

WHEREAS, in order to provide funds to finance the acquisition and construction of additional improvements to the Water System (the "Water Projects"), the Authority proposes to issue its 2010 Water Revenue Bonds (the "Bonds") under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"); and

WHEREAS, in order to provide revenues which are sufficient to pay debt service on the Bonds, the Authority proposes to sell the completed Water Projects to the City under an Installment Sale Agreement for a purchase price to be paid by the City in semiannual installments during the term of the Bonds; and

WHEREAS, the obligations of the City under the proposed Installment Sale Agreement will be secured by a pledge of and lien on the net revenues of the Water System; and

WHEREAS, the City Council wishes at this time to take action approving such financing transactions and all related documents and actions.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lodi as follows:

Section 1. Approval of Financing Plan; Authorization of Bonds. The City Council hereby approves the financing plan described in the recitals of this Resolution. To that end, the City Council hereby approves the issuance of the Bonds by the Authority under the Bond Law in the aggregate principal amount of not to exceed \$45,000,000.

Section 2. Approval of Installment Sale Agreement. The City Council hereby approves the Installment Sale Agreement between the Authority and the City, under which the Authority agrees to sell the completed Water Projects to the City for a purchase price to be paid in semiannual installment payments. As provided in the Installment Sale Agreement, the installment payments thereunder shall be payable from and secured by a pledge of and lien on the net revenues of the Water System.

The Installment Sale Agreement is hereby approved in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the City Manager or the Deputy City Manager/Internal Services Director (each, an "Authorized Officer"). An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the City to execute, and the City Clerk is hereby

authorized and directed to attest, the final form of the Installment Sale Agreement, and such execution shall be conclusive evidence of the approval of the final form thereof.

Section 3. Sale of Bonds; Approval of Bond Purchase Agreement. The City Council hereby approves the negotiated sale of the Bonds by the Authority to Stone & Youngberg LLC (the "Underwriter"). The Bonds shall be sold upon the terms and conditions set forth in the Bond Purchase Agreement in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by an Authorized Officer. As provided in the resolution of the Board of Directors of the Authority authorizing the issuance and sale of the Bonds, the true interest cost of the Bonds shall not exceed 6.0% and the maximum amount of Underwriter's discount on the sale of the Bonds shall not exceed 0.85% of the par amount of the Bonds; provided, however, (i) if an Authorized Officer, after consultation with the City's bond counsel and financial advisor and the Underwriter, concludes that it will be economically beneficial to the City for the Authority to issue all or a portion of the Bonds as taxable bonds under the Build America Bonds program created by the American Recovery and Reinvestment Act of 2009, then the Bonds (or a portion of the Bonds, in a second series) may be issued as taxable bonds, and the true interest cost of such taxable bonds shall not exceed 8.5%. The final form of the Bond Purchase Agreement shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 4. Official Statement. The City Council hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the City Clerk, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the final Official Statement for and in the name and on behalf of the City. The City Council hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

Section 5. Official Actions. The Mayor, the City Manager, the Deputy City Manager/Internal Services Director, the City Clerk, the City Attorney and all other officers of the City are each authorized and directed in the name and on behalf of the City to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution, including any documentation relating to municipal bond insurance if an Authorized Officer concludes, after consultation with the City's bond counsel, the City's financial advisor and the Underwriter, that it would be cost-effective to purchase such insurance. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in case such officer is absent or unavailable.

Section 6. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

Dated: October 6, 2010

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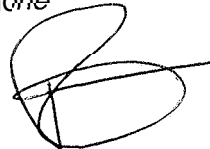
I hereby certify that Resolution No. 2010-173 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 6, 2010, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Johnson, and Mayor Katzakian

NOES: COUNCIL MEMBERS – Hitchcock and Mounce

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None

A handwritten signature in black ink, appearing to read "Randi JoHL", with a stylized flourish extending from the end.

RANDI JOHL
City Clerk

2010-173

RESOLUTION NO. LPFA2010-01

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LODI
PUBLIC FINANCING AUTHORITY AUTHORIZING THE ISSUANCE
AND SALE OF WATER REVENUE BONDS TO FINANCE THE
CONSTRUCTION OF WATER SYSTEM IMPROVEMENTS, AND
APPROVING RELATED DOCUMENTS AND OFFICIAL ACTIONS

=====

WHEREAS, the City of Lodi (the "City") owns and operates facilities and property for the supply, treatment, and distribution of water within the service area of the City (the "Water System"); and

WHEREAS, in order to provide funds to finance the construction of additional improvements to the Water System (the "Water Projects"), the Lodi Public Financing Authority (the "Authority") proposes to issue its 2010 Water Revenue Bonds (the "Bonds") under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"); and

WHEREAS, in order to provide revenues which are sufficient to pay debt service on the Bonds, the Authority proposes to sell the completed Water Projects to the City under an Installment Sale Agreement, for a purchase price to be paid by the City in semiannual installments during the term of the Bonds; and

WHEREAS, the Authority proposes to sell the Bonds on a negotiated basis to Stone & Youngberg LLC, as underwriter (the "Underwriter"); and

WHEREAS, the Board of Directors of the Authority wishes at this time to take action approving such financing transactions and all related documents and actions.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Lodi Public Financing Authority as follows:

Section 1. Approval of Financing Plan; Authorization of Bonds. The Board of Directors hereby approves the financing plan described in the recitals of this Resolution. To that end, the Board of Directors hereby authorizes the issuance of the Bonds under the Bond Law in the aggregate principal amount of not to exceed \$45,000,000.

Section 2. Approval of Related Financing Agreements. The Board of Directors hereby approves each of the following agreements required to implement the financing plan to be accomplished by the Bonds, in substantially the respective forms on file with the Secretary together with any changes therein or additions thereto deemed advisable by the Executive Director or the Treasurer (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such changes or additions.

- (a) Indenture of Trust between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, prescribing the terms and conditions upon which the Bonds will be issued.

- (b) Installment Sale Agreement between the Authority and the City, under which the Authority agrees to sell the completed Water Projects to the City in consideration of semiannual installment payments.
- (c) Bond Purchase Agreement among the Authority, the City and the Underwriter, under which the Underwriter agrees to purchase the Bonds from the Authority.

An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the Authority to execute, and the Secretary is hereby authorized and directed to attest the final form of each of the foregoing agreements, and such execution shall be conclusive evidence of the approval of the final form thereof.

Section 3. Sale of Bonds. The Board of Directors hereby approves the negotiated sale of the Bonds to the Underwriter. The Bonds shall be sold upon the terms and conditions set forth in the Bond Purchase Agreement which is approved under Section 2. The Board of Directors hereby delegates to an Authorized Officer the authority to accept an offer from the Underwriter to purchase the Bonds, provided that the true interest cost of the Bonds shall not exceed 6.0% and the maximum amount of Underwriter's discount on the sale of the Bonds shall not exceed 0.85% of the par amount of the Bonds; provided, however, (i) if an Authorized Officer, after consultation with the Authority's bond counsel and financial advisor and the Underwriter, concludes that it will be economically beneficial to the Authority to issue all or a portion of the Bonds as taxable bonds under the Build America Bonds program created by the American Recovery and Reinvestment Act of 2009, then the Bonds (or a portion of the Bonds, in a second series) may be issued as taxable bonds, and the true interest cost of such taxable bonds shall not exceed 8.5%. The final form of the Bond Purchase Agreement shall be executed in the name and on behalf of the Authority by an Authorized Officer.

Section 4. Official Statement. The Board of Directors hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the Secretary, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the Final Official Statement for and in the name and on behalf of the Authority. The Board of Directors hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

Section 5. Official Actions. The Chair, the Executive Director, the Treasurer, the Secretary, the Authority's general counsel and all other officers of the Authority are each authorized and directed in the name and on behalf of the Authority to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution, including any documentation relating to municipal bond insurance if an Authorized Officer concludes, after consultation with the Authority's bond counsel, the Authority's financial advisor and

the Underwriter, that it would be cost-effective to purchase such insurance. Whenever in this Resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

Section 6. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

Dated: October 6, 2010

=====

I hereby certify that Resolution No. LPFA2010-01 was passed and adopted by the Board of Directors of the Lodi Public Financing Authority in a regular meeting held October 6, 2010, by the following vote:

AYES: BOARD MEMBERS – Hansen, Johnson, and
Chairperson Katzakian

NOES: BOARD MEMBERS – Hitchcock and Mounce

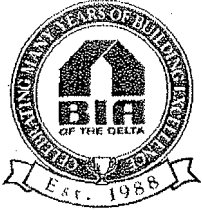
ABSENT: BOARD MEMBERS – None

ABSTAIN: BOARD MEMBERS – None

A handwritten signature in black ink, appearing to read 'Randi Johl', with a stylized flourish at the end.

RANDI JOHL
Secretary

LPFA2010-01



BUILDING INDUSTRY ASSOCIATION OF THE DELTA

315 N. SAN JOAQUIN ST., SUITE 202
STOCCRTON, CA 95202
209-235-7831 • 209-235-7837 fax

J-1

OFFICERS

Jeremy White
The Grupe Company
Randy Bling
Florsheim Homes
Ramon Batista
River Islands @ Lathrop
Mahesh Ranchhod
American-USA Homes

BOARD OF DIRECTORS

Rod Attebery
Neumiller & Beardslee
Bill Bromann
H.D. Arnaiz Corporation
Gina Carruesco
Caresco Homes
Rey Chavez
Kelly-Moore Paint Company
Ryan Gerding
Pulte Homes
Cathy Ghan
Oak Valley Community Bank
Steve Herum
Herum Crabtree Brown
Dudley McGee
Wells Fargo
Terry Miles
Teichert Construction
David Nelson
A.G. Spanos Companies
Carol Ornelas
Visionary Home Builders, Inc.
Denise Tschirky
Legacy Homes

LIFETIME DIRECTORS

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H.D. Arnaiz Corporation
Dennis Bennett
Bennett Development
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AKF Development, LLC
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Jeffrey Kirst
Tokay Development
Wayne LeBaron
LeBaron Ranches
John Looper
Top Grade Construction
Steve Moore
Westervelt Ecological
Toni Raymus
Raymus Homes, Inc.
Tony Souza
Souza Realty & Development

October 6, 2010

Mayor Phil Katzakian
City of Lodi
221 W. Pine St.
Lodi, CA 95240

Mayor Katzakian,

Item J-1 on your agenda for the October 6, 2010 Council meeting is the issuance of bonds for the construction of a Water Treatment Plant. **The** issuance of these bonds will require annual payments from the water utility of roughly \$2 million. The availability of funds to make those annual payments remains unclear.

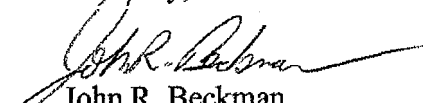
On several occasions staff has made vague references that new development will pay for the Water Treatment Plant.

Likewise BIA Delta continues to question any assumption of new development paying for a portion of the Water Treatment Plant. At this time it is the position of BIA Delta that new development will not pay for the Water Treatment Plant until such time as a full nexus study **has** been completed to determine what, if any, portion of the Water Treatment Plant is **required** for development to occur in the City.

Due to **the** longstanding overdraft conditions occurring in Lodi the City has accumulated a significant deficit of groundwater which needs to be replenished. In contrast, with the new "green" design standards required in all California development the water demands of new development are much lower than development of just fifteen years ago. When the safe yield amount of water from increased city limits is added to **the** reduced water demand of new development it will be a close call on whether new development is actually adding to the water supply or not.

We **ask** that you keep this in mind while discussing the financing of the Water Treatment Plant.

Sincerely,


John R. Beckman
Chief Executive Officer



Presentation to Lodi City Council

*Lodi Public Financing Authority
2010 Water Revenue Bonds*

October 6, 2010



STONE &
YOUNGBERG

San Francisco

Los Angeles

San Diego

New York

Chicago

Phoenix

Richmond

Annapolis

Albany

2010 Water Revenue Bonds

♦ Proposed financing

- Not-to-exceed \$45 million Water Revenue Bonds
- May be issued as tax-exempt bonds, taxable Build America Bonds or a combination

♦ Purpose

- Fund construction of Water Treatment Plant
- Establish a debt service reserve fund
- Pay costs of issuance

Security for Water Revenue Bonds

♦ Net Revenues

- All gross water system revenues less operating and maintenance costs
- Includes Build America Bond federal interest subsidy, if applicable

♦ Rate Covenant

- City promises to charge sufficient water rates to pay debt service with a coverage cushion of: (i) 125% coverage from Net Revenues, including any transfers from the Rate Stabilization Fund, and (ii) 100% coverage from Net Revenues less impact fees and any transfers from Rate Stabilization Fund
- Rate Stabilization Fund can be used for cash management purposes, to smooth out impacts on rates

♦ Debt Service Reserve Requirement

- Sized at the lesser of (i) maximum annual debt service, (ii) 10% of par amount, or (iii) 125% of average annual debt service

Ratings and Bond Insurance

♦ Ratings

- Moody's has provided a rating of "**Aa3**"
- Standard & Poor's has provided a rating to "**A+**"
 - At the same time, S&P also upgraded the Wastewater System credit to "A+" from "A-"
- Both provide a "**stable**" outlook

♦ Bond Insurance

- Assured Guaranty provided a bond insurance bid
 - 0.28% times total debt service or approximately \$200,000 paid up-front
- Bonds could be sold at "Aa3/AAA" interest rates instead of "Aa3/A+" rates
- Total nominal debt service savings of approximately \$272,000
- Economic "net present value" savings of approximately \$150,000

Tax-Exempt or Build America Bonds

♦ Build America Bonds (BABs)

- Authorized by American Reinvestment and Recovery Act of 2009 (ARRA)
- Finance tax-exempt eligible projects at *taxable* interest rates with a *35% federal interest subsidy*
- Access investors in larger, more actively-traded taxable bond market

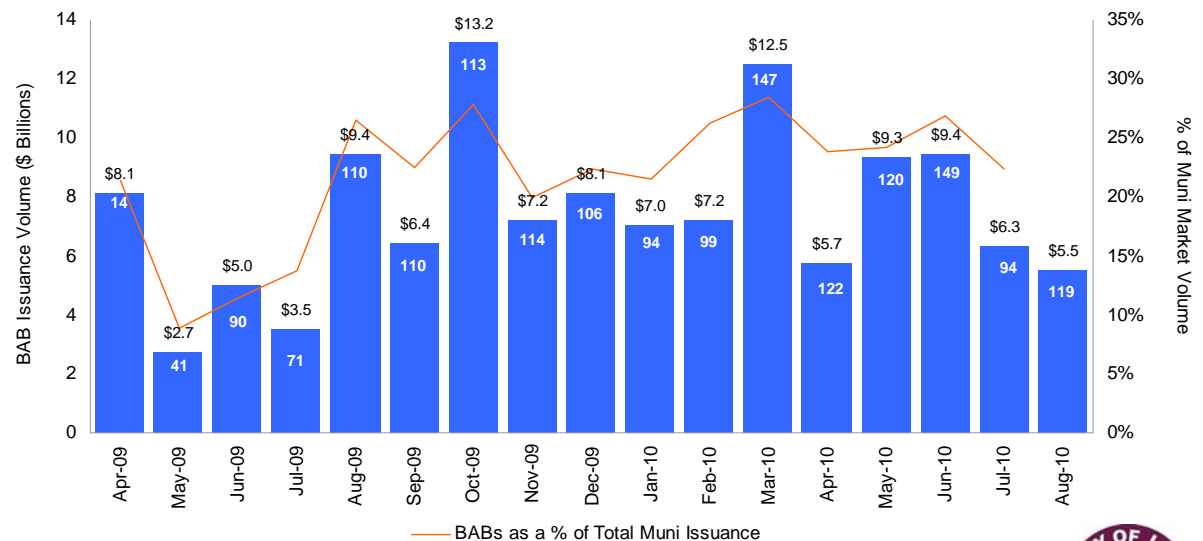
♦ Considerations

- Economic benefit
- Administrative effort
- IRS compliance

♦ Active BAB Issuance

- Over 1,700 issues to date
- Over \$126 billion in par
- ~ 25% of total muni sales

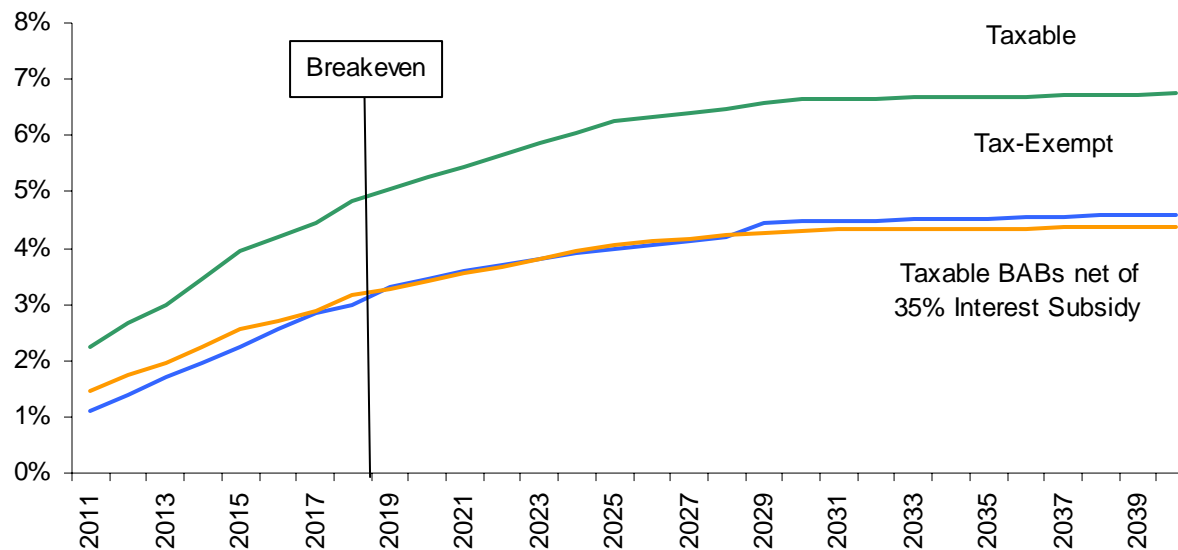
Build America Bond Issuance Since April 2009



Comparative Interest Rates

- ♦ **Benefit of BABs will vary based on market conditions**
 - Based on current market, we estimate a mix of tax-exempt and taxable bonds to optimize lowest borrowing costs

Illustrative Current Market Interest Rates



Municipal Market Conditions

♦ Strong investor demand

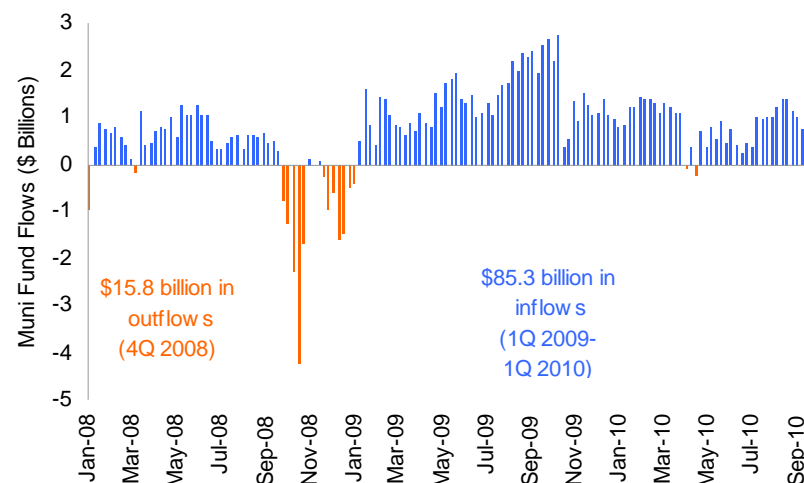
- Inflows into relative safety of bond funds
- Muni fund assets balloon to record highs
- Shift of volume into taxable BAB market has supported tax-exempt rates

♦ Active municipal issuance

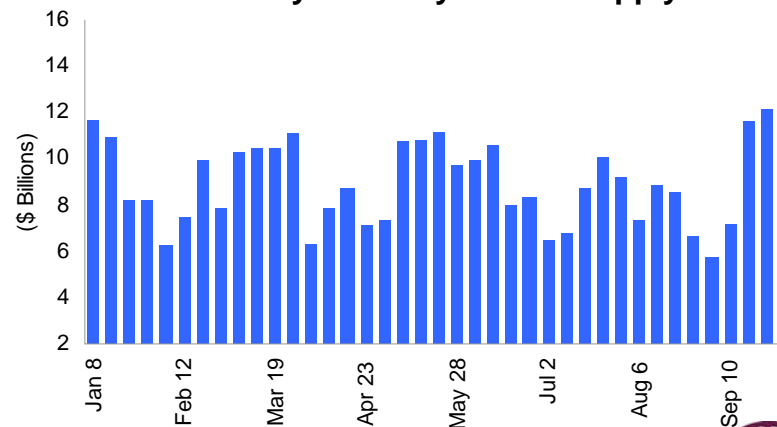
- Heavy calendar expected in 4th Quarter
 - \$1.9 billion State of California Department of Water Resources sale this week
 - \$3-\$4 billion expected from several California transportation agencies, alone
 - Additional State borrowing expected once budget is complete
- Rush to use BABs before program authorization sunsets at year end

Source: Ipreo, Bond Buyer, & Investment Company Institute.
 (1) Long-term municipal new issues only.

Municipal Mutual Fund Flows



Bond Buyer 30-Day Visible Supply¹

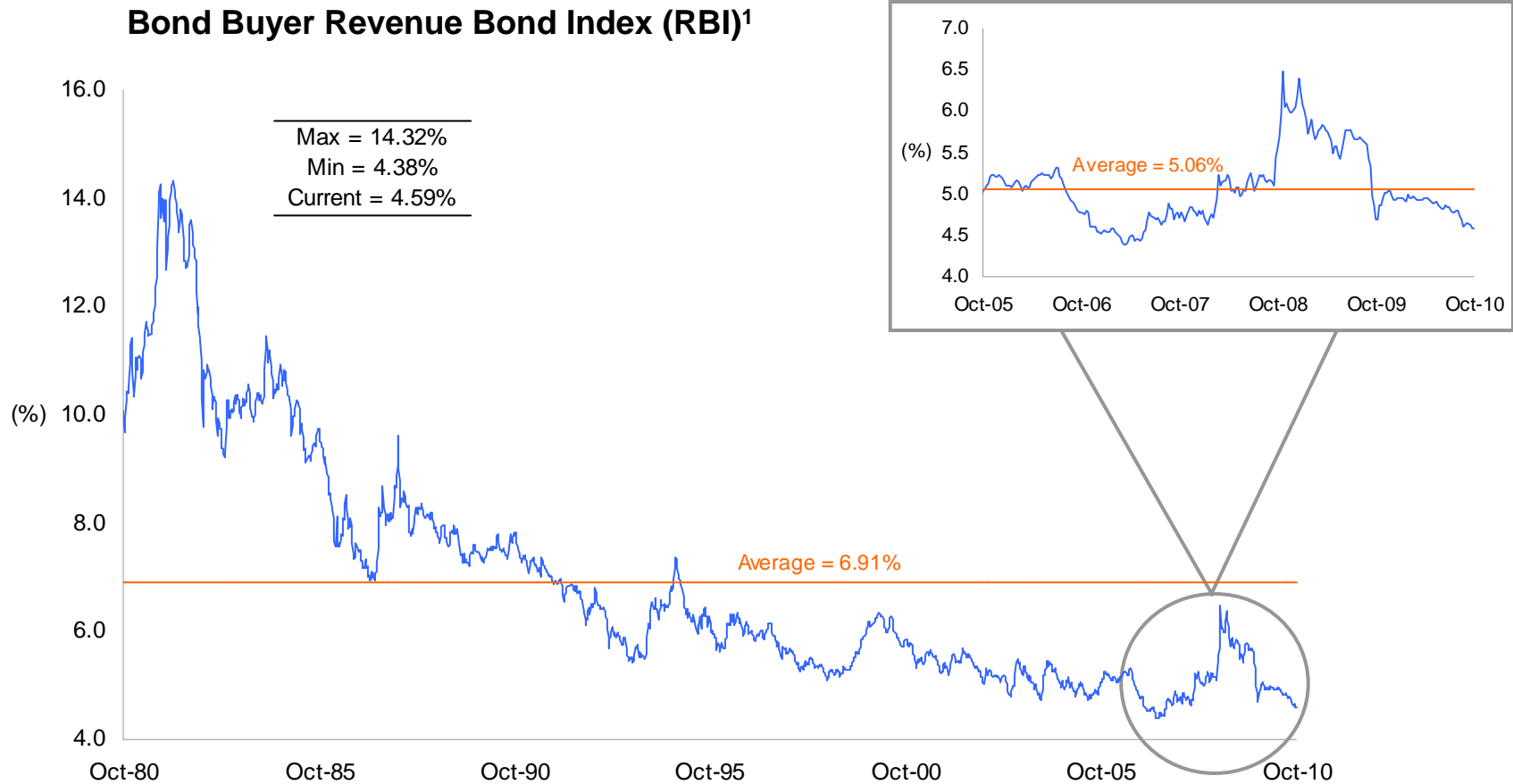


STONE &
YOUNGBERG



Interest Rates Approach 30-Year Lows

Tax-exempt revenue bond rates have seldom been lower



(1) Source: Bloomberg. Tax-Exempt Bonds Maturing in 30 Years with Average Rating of A1/A+. As of 10/1/2010.

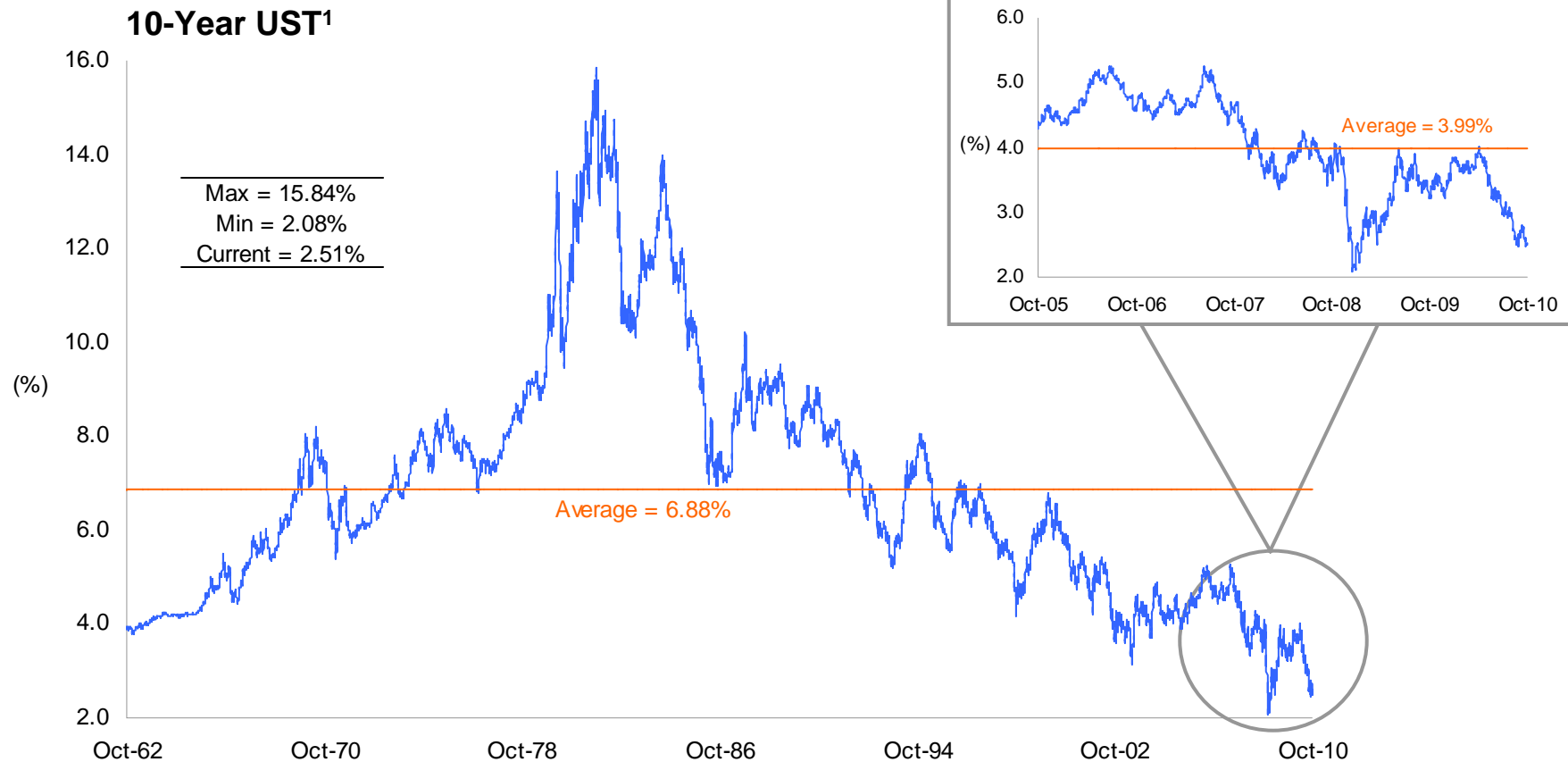


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Treasury Market Remains Strong

Rally sparked by economic uncertainty and anticipated quantitative easing



(1) Source: Federal Reserve & Bloomberg. As of 10/1/2010.

Financing Details

♦ Estimated Borrowing Costs

- Interest rates for 2010 Bonds will be set on day of pricing
- True interest cost estimated at 4.6%

♦ Preliminary Estimated Sources and Uses

Sources

Par Amount	\$37,370,000
Original Issue Premium	<u>2,325,946</u>
	\$39,695,946

Uses

Project Fund	\$36,500,000
Debt Service Reserve Fund	2,450,250
Bond Insurance	201,755
Costs of Issuance	<u>543,941</u>
	\$39,695,946

Approvals Requested

♦ Resolutions

- City and Lodi Public Financing Authority each authorize issuance of the Bonds and approve the legal documents and POS in substantially final form

♦ Preliminary Official Statement (POS)

- Describes key terms of the bonds, the security, the City and its water enterprise
- Discloses potential risks to prospective investors
- Should be complete and accurate with no material omissions or misstatements

♦ Other Documents

- Installment Sale Agreement: pledges net water revenues to debt payments and provides covenant to maintain adequate rates and coverage, describes flow of funds
- Indenture of Trust: lays out legal structure of the bonds, payment dates, etc.
- Continuing Disclosure Certificate: City agrees to provide annual information to market
- Purchase Agreement: contract with Stone & Youngberg to lock in interest rates and principal amounts on day of pricing, outlines conditions of closing

Wrap Up and Next Steps

- ♦ **Questions?**

- ♦ **Schedule of Next Steps**

October 6 th	Council approval
October 7 th	Distribute preliminary official statement (POS)
October 14 th or 19 th	Bond pricing
Week of Oct 25 th	Bond closing